annual information form

for the year ended December 31, 2006

March 13, 2007

TALISMAN

ENERGY

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Unless the context indicates otherwise, reference in this Annual Information Form to "Talisman" or the "Company" includes direct or indirect subsidiaries of Talisman Energy Inc. and partnership interests held by Talisman Energy Inc. and its subsidiaries.

Forward-Looking Statements

This Annual Information Form contains or incorporates by reference statements that constitute forward-looking statements or forward-looking information (collectively "forward-looking statements") within the meaning of applicable securities legislation.

Forward-looking statements are included throughout this Annual Information Form, including, among other places, under the headings "General Development of the Business", "Description of the Business", "Directors and Officers", "Legal Proceedings" and "Risk Factors". These statements include, among others, statements regarding:

- business strategy and plans or budgets;
- business plans for drilling, exploration and development;
- the estimated amounts and timing of capital expenditures;
- the estimated timing and results of development, including new production;
- the anticipated schedule for commissioning of pipelines;
- royalty rates and exchange rates;
- planned asset dispositions and acquisitions and their timing;
- the merits and timing or anticipated outcome of pending litigation; and
- other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations or performance.

Statements concerning oil and gas reserves contained in this Annual Information Form under the headings "Description of the Business – Reserves Estimates", "Other Oil and Gas Information" and "Supplemental Oil and Gas Information" and elsewhere may be deemed to be forward-looking statements as they involve the implied assessment that the resources described can be profitably produced in the future, based on certain estimates and assumptions. Often, but not always, forward-looking statements use words or phrases such as: "expects", "does not expect" or "is expected", "anticipates" or "does not anticipate", "plans" or "planned", "estimates" or "estimated", "projects" or "projected", "forecasts" or "forecasted", "believes", "intends", "likely", "possible", "probable", "scheduled", "positioned", "goals" or "objectives", or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Various assumptions were used in drawing the conclusions or making the forecasts and projections contained in the forward-looking statements throughout this Annual Information Form. In particular, statements that discuss business plans for drilling, exploration and development in 2007 assume that the extraction of crude oil, natural gas and natural gas liquids remains economic. For the purposes of preparing this Annual Information Form, Talisman assumed a US$65/bbl West Texas Intermediate oil price, a US$7.50/mmbtu New York Mercantile Exchange natural gas price, a US$/C$ exchange rate of $0.90 and a C$/UK£ exchange rate of $2.05 in 2007.

Undue reliance should not be placed on forward-looking statements. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated by Talisman and described in the forward-looking statements. These risks and uncertainties include:

- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand, including unpredictable facilities outages;
- risks and uncertainties involving geology of oil and gas deposits;
- the uncertainty of reserves estimates, reserves life and underlying reservoir risk;
- the uncertainty of estimates and projections relating to production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- the outcome and effects of completed acquisitions, as well as any future acquisitions and dispositions;
- the ability of the Company to integrate any assets it has acquired or may acquire or the performance of those assets;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing and changes in capital markets;
- uncertainties related to the litigation process, such as possible discovery of new evidence or acceptance of novel legal theories and the difficulties in predicting the decisions of judges and juries;
- risks in conducting foreign operations (for example, political and fiscal instability or the possibility of civil unrest or military action);

- competitive actions of other companies, including increased competition from other oil and gas companies or companies providing alternative sources of energy;
- changes to general economic and business conditions;
- the effect of acts of, or actions against, international terrorism;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;
- results of the Company's risk mitigation strategies, including insurance and any hedging programs; and
- the Company's ability to implement its business strategy.

Readers are cautioned that the foregoing list of risks and uncertainties is not exhaustive. Additional information on these and other factors which could affect the Company's operations or financial results is included under the heading "Risk Factors", in the Report on Reserves Data by Talisman's Internal Qualified Reserves Evaluator and in the Report of Management and Directors on Oil and Gas Disclosure, (which reports are attached as schedules to this Annual Information Form) and elsewhere in this Annual Information Form. Additional information may be found in the Company's other reports on file with Canadian securities regulatory authorities and the United States Securities and Exchange Commission (the "SEC").

Forward-looking statements are based on the estimates and opinions of the Company's management at the time the statements are made. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change, except as required by law.

Note Regarding Reserves Data and Other Oil and Gas Information

National Instrument 51-101 ("NI 51-101") of the Canadian Securities Administrators imposes oil and gas disclosure standards for Canadian public companies engaged in oil and gas activities. NI 51-101 and its companion policy specifically contemplate the granting of exemptions from some of the disclosure standards prescribed by NI 51-101 to companies that are active in the United States ("US") capital markets to permit the substitution of the disclosures required by the SEC rules in order to provide for comparability of oil and gas disclosure with that provided by US and other international issuers. Talisman has obtained an exemption from Canadian securities regulatory authorities to permit it to provide disclosure in accordance with the relevant US requirements. Accordingly, most of the reserves data and other oil and gas information included in this Annual Information Form is disclosed in accordance with US disclosure requirements. Such information, as well as the information that Talisman discloses in the future in reliance on the exemption, may differ from the corresponding information prepared in accordance with NI 51-101 standards.

The primary differences between the US requirements and the NI 51-101 requirements are that (i) SEC rules normally permit disclosure only of proved reserves, whereas NI 51-101 requires disclosure of proved and probable reserves and (ii) SEC rules require that the reserves and future net revenue be estimated under existing economic and operating conditions, whereas NI 51-101 requires disclosure of proved reserves and the associated future net revenue on a constant basis, and of proved, probable and proved plus probable reserves and the associated future net revenue on a forecast basis. The US and Canadian definitions of proved reserves differ, but Talisman does not believe that the differences in the definitions would result in any material difference in its reserves estimates for that category. The Canadian Oil and Gas Evaluation Handbook ("COGEH", the reference source for the definition of proved reserves under NI 51-101) states that the differences in the estimated proved reserves quantities based on constant prices should not be material.

Talisman has disclosed proved reserves (including continuity of reserves) using the standards contained in US Regulation S-X and the standardized measure of discounted future net cash flows from proved reserves determined in accordance with Statement No. 69 of the US Financial Accounting Standards Board ("FAS 69"). US practice is to disclose net proved reserves after deduction of estimated royalty burdens and including net profit interests. In addition, notwithstanding that Talisman is not required to disclose probable reserves, it has done so using the definition for probable reserves set out by the Society of Petroleum Engineers/World Petroleum Congress ("SPE/WPC"). Talisman does not believe that the differences in the SPE/WPC and NI 51-101 definitions of probable reserves would result in any material difference in its estimates of probable reserves disclosed in this Annual Information Form. Talisman's estimate of proved reserves and probable reserves are based on the same price assumptions. The SEC normally permits oil and gas companies to disclose in their filings with the SEC only proved reserves that have been demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. Probable reserves do not meet the requirements of the SEC for inclusion in documents filed with the SEC by US companies.

Exchange Rate Information

Except where otherwise indicated, all dollar amounts in this Annual Information Form are stated in Canadian dollars ("C$"). The following table sets forth the US/Canada exchange rates on the last trading day of the years indicated as well as the high, low and average rates for such years. The high, low and average exchange rates for each year were identified or calculated from spot rates in effect on each trading day during the relevant year. The exchange rates shown are expressed as the number of US dollars ("US$") required to purchase one C$. These exchange rates are based on those published on the Bank of Canada's website as being in effect at approximately noon on each trading day (the "Bank of Canada noon rate").

	Year ended December 31		
	2006	**2005**	**2004**
Year-end	**0.8581**	0.8577	0.8308
High	**0.9099**	0.8690	0.8493
Low	**0.8528**	0.7872	0.7159
Average	**0.8820**	0.8258	0.7697

Definitions

The abbreviations set forth below have the following meanings:

bbl	barrel
bbls	barrels
bcf	billion cubic feet
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
bbls/d	barrels per day
C$	Canadian dollar
mbbls/d	thousand barrels per day
mcf	thousand cubic feet
mmboe	million barrels of oil equivalent
mmbbls	million barrels
mmbtu	million British thermal units
mmcf	million cubic feet
mmcf/d	million cubic feet per day
NGLs	natural gas liquids
NOK	Norwegian kroner
PSC	production sharing contract
tcf	trillion cubic feet
UK	United Kingdom
UK£	Pound sterling
US$	United States dollar

Natural gas is converted to oil equivalent at the ratio of six mcf to one boe. The boe measure may be misleading, particularly if used in isolation. A boe conversion ratio of six mcf to one bbl is based on an energy equivalence conversion method primarily applicable at the burner tip and does not represent a value equivalence at the wellhead.

Gross acres means the total number of acres in which Talisman has a working interest. Net acres means Talisman's working interest owned in gross acres expressed as whole numbers and fractions thereof.

Gross production means Talisman's interest in production volumes (through working interests, royalty interests and net profit interests) before the deduction of royalties. Net production means Talisman's interest in production volumes after deduction of royalties payable by Talisman.

Gross wells means the total number of wells in which Talisman owns a working interest. Net wells means Talisman's working interest owned in gross wells expressed as whole numbers and fractions thereof.

Corporate Structure

Talisman Energy Inc. is incorporated under the *Canada Business Corporations Act*. The Company's registered and principal office is located at Suite 3400, 888 3rd Street SW, Calgary, Alberta T2P 5C5.

In 2006, Talisman amended its Articles of Amalgamation to subdivide its common shares ("Common Shares") on a three-for-one basis.

The following table sets forth the material operating subsidiaries owned directly or indirectly by Talisman, their jurisdictions of incorporation and the percentage of voting securities beneficially owned, controlled or directed by Talisman as at December 31, 2006.

Name of Subsidiary	Jurisdiction of Incorporation	Percentage of Voting Securities Owned[1]
Talisman Energy (UK) Limited[1]	England and Wales	100%
Talisman North Sea Limited	England and Wales	100%
Talisman (Corridor) Ltd.	Barbados	100%
Petromet Resources Limited	Ontario, Canada	100%
Fortuna Energy Inc.	Delaware, US	100%
Talisman Malaysia Limited	Barbados	100%
Talisman Energy Norge AS	Norway	100%

Note:

1 With the exception of Talisman Energy (UK) Limited, none of the above subsidiaries has any non-voting securities outstanding. All of the non-voting securities of Talisman Energy (UK) Limited are directly or indirectly held by Talisman.

The above table does not include all of the subsidiaries of Talisman. The assets, sales and operating revenues of unnamed operating subsidiaries individually did not exceed 10% and, in the aggregate, did not exceed 20% of the total consolidated assets or total consolidated sales and operating revenues, respectively, of Talisman, as at and for the year ended December 31, 2006.

Talisman Energy Inc. and Petromet Resources Limited ("Petromet"), an indirect subsidiary of Talisman, are partners in an Alberta general partnership named Talisman Energy Canada (the "Partnership"). Talisman is the managing partner of the Partnership. Substantially all of Talisman's Canadian oil and gas operations are carried on through the Partnership.

General Development of the Business

Talisman is an independent, Canadian-based, international upstream oil and gas company whose main business activities include exploration, development, production, transportation and marketing of crude oil, natural gas and natural gas liquids. The Company made changes to its reporting segments in 2006. The United Kingdom ("UK") and Scandinavia, which were reported in aggregate as the North Sea in 2005, are reported separately in 2006. The reporting segment entitled "Other", which included Colombia, Peru and Qatar, now also includes North Africa (Algeria and Tunisia), and Trinidad and Tobago, both of which were reported separately in 2005. The North America reporting segment now includes Alaska. The Company's current reporting segments where there are ongoing exploration, development and production activities are: North America, the UK (comprising the UK, Netherlands and German sectors of the North Sea), Scandinavia (comprising the Norwegian and Danish sectors of the North Sea), Southeast Asia (comprising Indonesia, Malaysia, Vietnam, Australia and Papua New Guinea) and Other (comprising North Africa, Trinidad and Tobago, Colombia, Peru and Qatar).

During the past three years, Talisman has developed its business and diversified its interests through a combination of exploration, development, acquisitions and dispositions as described below. As part of its asset rationalization program, Talisman completed several acquisitions and dispositions in 2006 and early 2007 and is looking to sell additional non-core assets in 2007 to simplify and focus its asset base.

North America

In June 2004, a subsidiary of the Company acquired all of Belden & Blake Corporation's Trenton-Black River assets in New York, Pennsylvania, Ohio and West Virginia, resulting in ownership of approximately 433,000 additional gross acres. The acquisition effectively doubled the subsidiary's existing acreage to approximately 978,000 gross acres in the area.

In March 2005, the Partnership and a Talisman subsidiary collectively acquired the securities of a partnership now known as Talisman Findley Partnership, which increased the working interests in 63 wells in the Alberta Foothills on average from 15% to 57% and added approximately 128,000 undeveloped gross acres in the northern portion of the Alberta Foothills.

Through separate transactions occurring in 2004 and 2005, a subsidiary of Talisman acquired interests in approximately 450,000 gross acres of land in the North Slope of Alaska.

In February 2006, a subsidiary of the Company entered into an equity swap agreement for various interests in Alaska. In September 2006, the Company was successful in bidding on an additional 562,005 gross acres in the Northwest National Petroleum Reserve – Alaska ("NPR-A"). Additional participation in 2006 lease sales added to the Company's landholdings in the area. In early 2007, the Company acquired rights to an additional 116,157 net acres, resulting from a March 2006 lease sale in the Smith Bay area and a second equity swap agreement in 2006.

In 2006, Talisman sold non-strategic assets in Canada which were producing approximately 7,000 boe/d and to which Talisman had attributed proved reserves of 16 mmboe as at December 31, 2005.

In 2006, Talisman acquired an aggregate of 260,000 gross acres of land in a new core area of the Outer Alberta Foothills. Talisman now has more than 405,000 gross acres of land in this area, most of which is 100% Talisman working interest. This extensive land position provides Talisman with numerous multi-zone opportunities.

In October 2006, Talisman announced its intention to sell non-core assets in Canada to streamline, focus and simplify its asset base. The closings of the sales are expected to occur during the second quarter of 2007.

In October 2006, Talisman Energy Canada sold its 2% gross overriding royalty interest in Alberta Oil Sands Lease 23 to Suncor Energy Inc. for $108 million. In January 2007, Talisman completed the sale of its indirect 1.25% interest in Syncrude to Canadian Oil Sands Limited, the operating subsidiary of Canadian Oil Sands Trust ("COS"), for $477 million, comprised of $234 million in cash, net of adjustments, and 8,189,655 trust units of COS.

International

In March 2004, Talisman Malaysia Limited ("TML") signed a production sharing contract ("PSC") for Block PM-314 offshore Malaysia.

In early 2004, a Talisman subsidiary acquired an operated interest in the Galley field in the UK. In April 2004, Talisman Energy (UK) Limited acquired all of the outstanding shares of Intrepid Energy NSL Limited and Intrepid Energy DL Limited, whose assets provided additional interests in the Flotta Catchment area. In a separate transaction completed in November 2004, Talisman acquired additional interests in the Buchan area and reduced its interest in the MacCulloch field.

In August 2004, Talisman announced an agreement for the sale of 2.3 tcf of natural gas from the Corridor PSC in Indonesia. Talisman's subsidiary holds a 36% interest in the PSC.

In the fourth quarter of 2004, Talisman Energy (UK) Limited acquired all of the outstanding shares of Intrepid Energy Beta Limited, which included interests in a number of exploration licences in the UK.

In December 2004, Talisman's subsidiary was awarded interests in five additional licences in the Norwegian North Sea.

In January 2005, oil production commenced from the Angostura project offshore Block 2(c) in Trinidad and Tobago.

In February 2005, Talisman Energy (UK) Limited acquired all of the outstanding shares in Pertra AS ("Pertra"), resulting in the addition of producing and undeveloped fields in the Varg area, as well as several blocks of operated and non-operated exploration acreage in Norway. In June 2005, Talisman Energy Norge AS acquired a non-operated interest in the producing Brage and Sognefjord fields in Norway.

In April 2005, Talisman (Vietnam 15-2/01) Ltd., a Talisman subsidiary, signed a petroleum contract for Block 15-2/01 offshore Vietnam. The subsidiary holds a 60% interest in the block, which is comprised of 700,000 gross acres offshore Vietnam.

In June 2005, a Talisman subsidiary was granted additional acreage along the southeastern border of Block PM-3 Commercial Assessment Area ("CAA") offshore Malaysia/Vietnam. In August 2005, oil production commenced from the South Angsi field in Block PM-305 offshore Malaysia.

In November 2005, Talisman effectively acquired control of Paladin Resources plc (now Paladin Resources Limited and referred to as "Paladin") and, in January 2006, Talisman acquired all remaining shares of Paladin. Paladin's portfolio of production and exploration assets were predominantly located in the UK and Scandinavia, as well as Australia, Indonesia and Tunisia.

Since 2000, Talisman, through various subsidiaries, has acquired non-operated interests in several blocks of exploration acreage in the Andean trend of Colombia and Peru. In 2006, a Talisman subsidiary successfully bid for a 30% participating interest on the Niscota exploration block in Colombia.

In June 2006, a Talisman subsidiary successfully bid on a 30% working interest in the deepwater Pasangkayu block in Indonesia. A PSC was subsequently signed in September 2006.

In September 2006, the lawsuit filed against Talisman in 2001 by the Presbyterian Church of Sudan and others under the *Alien Tort Claims Act* in the United States District Court for the Southern District of New York was dismissed. The Plaintiffs have appealed the Court's decision granting Talisman's Motion for Summary Judgment and all prior rulings to the Second Circuit Court of Appeals. Talisman believes the lawsuit is entirely without merit and will continue to vigorously defend itself. Talisman does not expect the lawsuit to have a material adverse effect on the Company.

In November 2006, through the sale of its wholly owned subsidiary, Talisman Expro Limited, Talisman disposed of certain UK holdings which were producing approximately 9,200 boe/d at the time of the sale, and to which Talisman had attributed proved reserves of 12.8 mmboe as at December 31, 2005.

In November and December 2006, Talisman subsidiaries acquired the Auk field and an additional 87% interest in the Fulmar field in the Central North Sea, resulting in 100% ownership of both of these fields. The Talisman subsidiaries assumed operatorship on December 1, 2006.

Two of Talisman's subsidiaries entered into an agreement in December 2006 to sell their entire non-operated interests in the UK North Sea Brae assets. The transaction is expected to close late in 2007. Talisman's production from the Brae assets in 2006 averaged approximately 19,000 boe/d to which Talisman had attributed proved reserves of 18.5 mmboe as at December 31, 2006.

During 2006, in line with Talisman's strategy to simplify and focus its worldwide portfolio, the Company divested its interests in the Bahamas, Gabon and Romania.

In January 2007, Talisman was awarded a number of exploration blocks in the Central North Sea and west of the Shetland Islands. Talisman was also awarded some additional blocks in Norway.

Talisman continually investigates strategic acquisitions, dispositions and other business opportunities, some of which may be material. In connection with any such transaction, the Company may incur debt or issue equity securities.

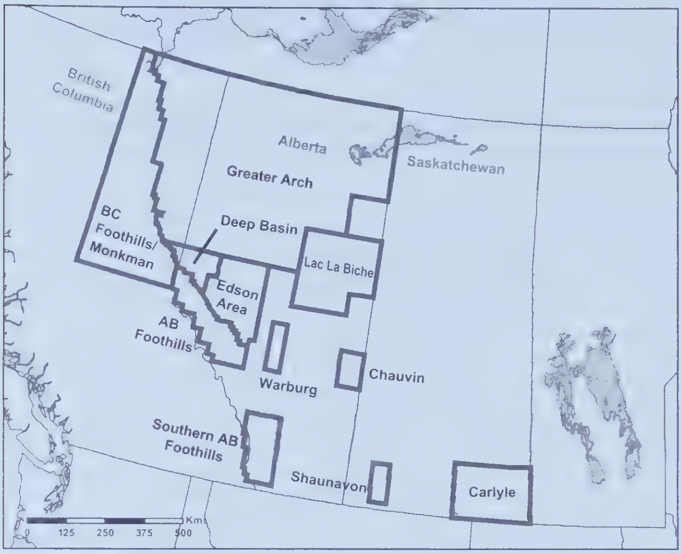
Description of the Business

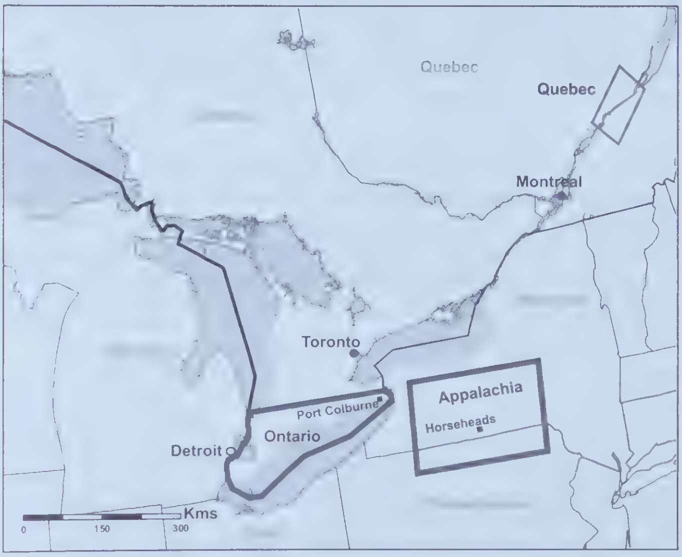
Talisman is one of the largest independent oil and gas producers in Canada. Talisman's main business activities include exploration, development, production, transportation and marketing of crude oil, natural gas and natural gas liquids. Each of Talisman's current areas of operations has exploration and development potential, which Talisman expects will provide future growth.

All information in this section relating to assets owned or held by Talisman is as of December 31, 2006, unless otherwise indicated.

North America

Talisman anticipates that it will spend approximately $2.3 billion on exploration and development in Canada and the US in 2007. Of this, more than 93% is expected to be directed toward development of natural gas opportunities. Talisman plans to participate in drilling 448 gross wells in 2007.





Over the past three years, Talisman's production has been maintained mainly through drilling activities. Talisman intends to sell approximately 16,000 boe/d of production from non-core assets in Western Canada by the end of the second quarter of 2007 to streamline, focus and simplify the asset base. In January 2007, Talisman completed the sale of its indirect 1.25% interest in Syncrude, which was producing 3,700 boe/d in December 2006, to Canadian Oil Sands Limited, the operating subsidiary of COS, for $477 million, comprised of $234 million in cash, net of adjustments, and 8,189,655 trust units of COS. Additional strategic asset acquisitions and dispositions will be evaluated throughout the year.

Canada

In Canada, Talisman's strategy is to continue oil and natural gas exploration and development focusing on several deep gas plays in the Western Canada Sedimentary Basin ("WCSB"). Talisman expects to spend 23% of its 2007 capital program on higher-risk/higher-reward technical thrust belt plays (Monkman and Alberta Foothills) and 37% on multi-zoned scalable plays (Bigstone/Wild River, Edson, West Whitecourt and Outer Foothills). Talisman anticipates that utilization and ownership of existing infrastructure and a high level of operatorship will continue to enable Talisman to control costs, production and capital spending.

Talisman employs a "total rock volume" approach, which Talisman believes can add substantially to the overall reserves and production life. A multidisciplinary team continues to identify new conventional and unconventional plays in the WCSB.

Talisman's Canadian exploration and development operations are organized around 12 core producing areas in Alberta, British Columbia, Ontario and Saskatchewan, which accounted for 93% of Talisman's Canadian production in 2006. The balance comprises production from joint venture properties. Of the 12 core areas, the following six are the principal gas production areas: Edson area (comprising Bigstone/Wild River, Edson and West Whitecourt), Greater Arch, Alberta Foothills, Monkman/BC Foothills, Deep Basin and Lac La Biche. The following four core areas are the principal oil production areas: Chauvin, Carlyle, Shaunavon and Warburg. The remaining two properties, Southern Alberta Foothills and Ontario, are both oil and gas production areas. Within its core areas, Talisman operates approximately 80% of its production, with high working interests in a large number of facilities.

The following core areas account for approximately 81% of Talisman's total Canadian oil and gas production in 2006: Alberta Foothills, Edson area, Greater Arch, Deep Basin, Monkman/BC Foothills, Southern Alberta Foothills and Chauvin. Each of these areas is described in greater detail below.

Alberta Foothills

Alberta Foothills is Talisman's largest natural gas producing area. Major operated facilities in the Alberta Foothills area include an 80% interest in the Cordel dehydration facility and associated pipelines, interests ranging from 62% to 100% in the Midstream Erith Pipeline and related facilities, a 45% interest in the Lovett River/Redcap pipeline system and a 41% interest in the Chungo/Bighorn gas gathering system. Talisman has non-operated interests in the Findley, Copton, Basing, Voyager, Stolberg, Redcap, Mountain Park and Brown Creek pipelines and associated facilities. Two major midstream pipeline projects, Lynx Pipeline (Talisman 45%) and Palliser Pipeline (Talisman 100%) were commissioned in 2006. Talisman expects capital spending in 2007 in the Alberta Foothills area will be approximately $421 million. Of this amount, approximately $178 million will be spent on

infrastructure and $243 million on participation in drilling 30 wells. The northern portion of the Alberta Foothills accounts for 55% of the expected capital spending and 70% of the wells expected to be drilled.

Edson Area

The properties comprising the larger Edson area (Bigstone/Wild River, Edson and West Whitecourt) are detailed below. Talisman expects that capital spending in 2007 in the Edson area will be approximately $680 million, approximately $123 million of which is for the new Outer Foothills plays in Hinton and Cabin Creek. The Company plans to participate in drilling 185 wells.

Bigstone/Wild River

Bigstone/Wild River is Talisman's second largest natural gas producing area. Talisman holds operated interests ranging from 64% to 100% in the Bigstone West and Wild River gas plants. Talisman continues to focus on infill drilling in the Wild River area. Talisman expects that capital spending in 2007 in the Bigstone/Wild River area will be approximately $283 million and plans to participate in drilling 92 wells.

Edson

Talisman holds operated interests ranging from 59% to 100% in the Edson and Medicine Lodge gas plants and a 100% interest in the Edson plant cogeneration facility. Talisman expects that capital spending in 2007 in the Edson core area will be approximately $330 million and plans to participate in drilling 63 wells.

West Whitecourt

Talisman holds a 55% operated interest in the McLeod River gas plant as well as non-operated interests ranging from 10% to 12% in the Kaybob South Amalgamated and the West Whitecourt gas plants. Talisman is continuing to focus on development drilling in the West Whitecourt area. Talisman expects that capital spending in 2007 in the West Whitecourt area will be approximately $67 million and plans to participate in drilling 30 wells.

Greater Arch

The Greater Arch is Talisman's third largest natural gas producing area. Talisman holds operated interests ranging from 42% to 100% in gas plants at Teepee Creek, Belloy, Boundary Lake, George and Josephine, as well as interests in a significant number of other non-operated gas plants in the area. Talisman's average operated interest in oil and gas properties in the Greater Arch area is 81%. Talisman expects that capital spending in 2007 in the Greater Arch area will be approximately $255 million, approximately $88 million of which will be spent on drilling in the Outer Foothills play, and plans to participate in drilling 52 wells.

Deep Basin

Talisman holds working interests ranging from 50% to 100% in the Midstream Cutbank complex, consisting of the Cutbank and Musreau A and B gas plants, five major field compression stations and an extensive gas gathering system, all of which ran at capacity throughout 2006. Talisman has a 30% non-operated working interest in the Copton gas plant and sales pipeline. Talisman holds non-operated interests ranging from 7% to 8% in the Wapiti Shallow Cut and Wapiti Deep Cut plants, which are expected to be sold in the second quarter of 2007. Through acquisitions in 2006, Talisman now has a 46% interest in the Narraway gathering system. Talisman has an 8% non-operated interest in the Narraway gas plant. Talisman expects that capital spending in 2007 in the Deep Basin area will be approximately $166 million, approximately $88 million of which will be spent on drilling in the Outer Foothills play, and plans to participate in drilling 16 wells.

Monkman/BC Foothills

In the Monkman/BC Foothills area, Talisman holds operated interests ranging from 55% to 77% in the Bullmoose, Sukunka and West Sukunka dehydration plants, non-operated interests ranging from 31% to 39% in the Murray River and Brazion dehydration plants and a 50% interest in the Mink Highhat Gathering System. In 2004, Talisman drilled a well in the Brazion area, which produced an average 36 mmcf/d (net sales gas) or 45 mmcf/d (gross sales gas) in 2006. In 2006, Talisman drilled the d-93-D/93-P-5 well in the Brazion area, producing an average of 15 mmcf/d (net sales gas) or 19 mmcf/d (gross sales gas). In the first and second quarters of 2006, Talisman tested three Triassic wells, which in combination tested at 73 mmcf/d gross raw gas. These wells are expected to be tied in in 2007. Talisman expects that capital spending in 2007 in the Monkman/BC Foothills area will be approximately $111 million and plans to participate in drilling six wells, four of which are deep wells.

Southern Alberta Foothills

Talisman holds a 100% interest in the Little Chicago gas plant and interests ranging from 76% to 86% in the Turner Valley Units 3, 4, 5 and 7. Talisman expects that capital spending in 2007 in the Southern Alberta Foothills area will be approximately $43 million of which approximately $11 million will be spent on infrastructure and $32 million will be spent on drilling eight wells.

Chauvin

Chauvin is Talisman's largest oil producing property in Canada. Talisman also has a 100% interest in the Chauvin Pipeline and the Chauvin Custom Treating Facility. Talisman expects that capital spending in 2007 in the Chauvin area will be approximately $40 million and plans to participate in drilling 45 wells.

Other

In Ontario, Talisman currently has natural gas production offshore Lake Erie and oil production onshore. Talisman has a 100% interest in the Renwick, North Wheatley (East), Rochester and Hillman central facilities. In addition, Talisman holds interests ranging from 65% to 100% in the Morpeth, Port Stanley, Port Alma, Port Maitland, Rochester and Nanticoke gas plants. Talisman expects that capital spending in 2007 in Ontario and Quebec will be approximately $14 million and plans to participate in drilling 20 offshore gas wells.

In Quebec, Talisman drilled the first earning well under each of two farmout agreements negotiated in 2005. One well is being completed and the other is currently suspended and waiting further evaluation. Talisman will earn 33,225 gross acres with one well and 151,007 gross acres with the other. Talisman may elect to commit to drill one additional earning well under each farmout agreement later in 2007. Talisman also entered into a farm-in agreement to gain access to approximately 25,202 gross acres and conducted a 2-D seismic program in 2006 under the agreement. A commitment to drill an earning well under the agreement is required by the second quarter in 2008.

Talisman Midstream Operations

Talisman Midstream Operations operates more than 920 kilometres (572 miles) of gathering pipelines, interconnected with multiple processing plants and downstream pipelines with an average throughput of approximately 500 mmcf/d in 2006. Talisman's 100% owned Central Foothills Gas Gathering Systems, Columbia Minehead Gas Gathering System and Palliser Gas Gathering System, and other midstream pipelines and processing assets ranging from 45% to 100% ownership, support Talisman's exploration and development programs in the Alberta Foothills, Edson and Deep Basin areas. Talisman spent $174 million in 2006 to expand and optimize midstream assets including the completion and commissioning of the Lynx, Palliser and Medlodge pipelines, which collectively added approximately 130 kilometres of gathering system and connected the northern portion of Alberta Foothills gas to markets. Flow rates on each of the Lynx and Palliser pipelines were 30 mmcf/d raw gas (including third party volumes) as of December 2006. In the fourth quarter of 2006, Talisman initiated the development of the Bigstone West Sweet Plant, the Cutbank Complex Expansion and the Palliser Interconnect Pipeline. The Palliser Interconnect will add 35 kilometres of gathering system and will connect the Palliser Gas Gathering System to the Lynx Gas Gathering System and increase certainty and flexibility for delivering out of the northern portion of the Alberta Foothills area. Talisman expects that capital spending in 2007 will be approximately $190 million and plans to complete the Palliser Interconnect pipeline system, the Bigstone West Sweet Plant, and the Cutbank Complex Expansion, and expand and optimize certain other midstream assets.

Synthetic Oil

On October 18, 2006, Talisman Energy Canada sold its 2% gross overriding royalty interest in Alberta Oil Sands Lease 23 to Suncor Energy Inc. for $108 million. On January 2, 2007, Talisman completed the sale of its indirect 1.25% interest in Syncrude to Canadian Oil Sands Limited, the operating subsidiary of COS, for $477 million, comprised of $234 million in cash, net of adjustments, and 8,189,655 trust units of COS.

United States

Fortuna Energy Inc. ("Fortuna"), a subsidiary of Talisman, operates in the Appalachia area of upstate New York. Fortuna holds a 100% operated interest in the Pinehill and Catlin Hill dehydration facilities as well as interests ranging from 49% to 100% in a number of operated meter stations and pipelines. In January 2007, Fortuna commenced production from a gas well in the Appalachia area with an initial flow rate of 15 mmcf/d gross sales gas. In addition, Fortuna tested a second well, which is expected to be on production in the second quarter of 2007 with a similar flow rate. Fortuna expects that capital spending in 2007 in the Appalachia area will be approximately $134 million and plans to participate in drilling 30 wells.

Talisman's subsidiary, Fortuna (US) L.P. ("FUSI"), continues to explore for oil and gas in the Western US. In 2006, FUSI acquired an interest in 176,622 net acres along the thrust belt system in Utah and Wyoming. In early 2007, the Company acquired an additional 42,190 net acres in the Utah area. FUSI expects that capital spending in 2007 in the Western US will be approximately $32 million and plans to participate in drilling up to four wells.

Frontiers

Alaska

Talisman's subsidiary, FEX L.P. ("FEX") holds interests ranging from 50% to 100% in land across the North Slope of Alaska.

During 2006, FEX added to its landholdings by participating in lease sales in March, September and October. Additionally, FEX entered into an equity swap agreement for all onshore lands within the Caribou Region of the NPR-A with Petro-Canada (Alaska) Inc. resulting in joint ownership in more than 1.2 million gross acres, with FEX assuming operatorship of all of the joint lands. At year-end 2006, FEX's landholdings totaled 794,044 net acres. In early 2007, FEX acquired rights to an additional 108,113 net acres in the Smith Bay area resulting from a March 2006 lease sale and an additional 8,044 net acres resulting from a second equity swap agreement.

Also in 2006, FEX drilled an exploration well, the results of which are currently confidential. In addition, FEX pre-staged equipment and drilling rigs in preparation for the 2007 drilling campaign. FEX expects capital spending in 2007 in the Alaska area will be approximately $100 million for the drilling of three exploration wells and seismic acquisition programs in the NPR-A.

Northwest Territories

In 2006, Talisman was awarded a 50% operated interest in four exploration licences totaling 850,873 gross acres in the Great Bear Lake area.

Talisman expects capital spending in 2007 to be approximately $6 million, primarily for geophysical surveys in preparation for future drilling.

Landholdings, Production and Productive Wells

The following tables set forth Talisman's North American landholdings, production and productive wells as at December 31, 2006.

North America

	Developed[3]		Undeveloped		Total	
Property	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
			(thousand acres)			
North America						
Canada						
Alberta Foothills	167.3	82.9	508.9	309.5	676.2	392.4
Edson Area	1,008.1	515.0	824.1	595.7	1,832.2	1,110.7
Greater Arch	720.1	336.9	1,377.3	999.1	2,097.4	1,336.0
Deep Basin	273.9	71.7	476.4	309.8	750.3	381.5
Monkman/BC Foothills	68.5	40.4	641.9	391.3	710.4	431.7
Chauvin	84.0	67.5	75.1	34.7	159.1	102.2
Other[1]	1,052.7	639.0	5,181.9	2,131.8	6,234.6	2,770.8
United States						
Appalachia	37.2	32.9	2,212.8	1,857.9	2,250.0	1,890.8
Other[2]	–	–	–	–	–	–
Frontiers						
Alaska[4]	–	–	1,055.0	794.0	1,055.0	794.0
Northwest Territories	–	–	850.9	414.8	850.9	414.8
Total	3,411.8	1,786.3	13,204.3	7,838.6	16,616.1	9,624.9
Synthetic Oil[5]	13.8	2.2	437.5	84.4	451.3	86.6

Notes:

1 "Other" includes Ontario, Southern Alberta Foothills and minor properties in Canada, but excludes Scotian Slope, synthetic oil in Alberta and coal leases in British Columbia.

2 "Other" includes minor properties in Pennsylvania, Utah and Wyoming.

3 "Developed" acreage consists of acres spaced or assigned to productive wells.

4 "Alaska" excludes 116,157 net acres which became effective in early 2007.

5 Talisman completed the sale of its indirect interest in Syncrude on January 2, 2007.

North America

Property	Oil & Liquids Production Gross[4]	Oil & Liquids Production Net[4]	Natural Gas Production Gross[5]	Natural Gas Production Net[5]	Productive Wells[1,2,3] as at December 31, 2006 Gross	Productive Wells[1,2,3] as at December 31, 2006 Net
	(bbls/d)		(mmcf/d)			
North America						
Canada						
Alberta Foothills	182	129	154.9	120.9	258	117.1
Edson Area	5,124	3,807	253.2	209.5	1,455	1,012.9
Greater Arch	6,926	5,502	124.9	99.0	1,408	769.0
Deep Basin	1,479	1,093	40.9	33.6	596	131.2
Monkman/BC Foothills	–	–	114.0	91.1	75	44.1
Southern Alberta Foothills	3,418	2,712	19.4	15.8	263	181.4
Chauvin	14,605	12,420	13.1	11.3	1,945	1,261.1
Other[6]	18,112	13,719	90.2	78.6	4,346	2,067.7
United States						
Appalachia	–	–	99.1	84.6	98	83.8
Other[7]	–	–	–	–	–	–
Frontiers						
Alaska	–	–	–	–	–	–
Northwest Territories	–	–	–	–	–	–
Total	49,846	39,382	909.7	744.4	10,444	5,668.3
Synthetic Oil[8]	3,431	2,979	–	–	–	–

Notes:

1 "Productive Wells" means producing wells and wells capable of production.

2 Includes wells containing multiple completions as follows:

	Oil Wells	Gas Wells
Gross	508	1,336
Net	273.7	720.9

3 One or more completions in the same bore hole is counted as one well. A well is classified as an oil well if one of the multiple completions in a well is an oil completion.

4 Includes approximately 702 bbls/d of liquids attributable to royalty interests and net profits interests.

5 Includes approximately 9.0 mmcf/d of gas attributable to royalty interests and net profits interests.

6 "Other" includes Ontario and minor properties in Canada, but excludes Scotian Slope and synthetic oil in Alberta.

7 "Other" includes minor properties in Pennsylvania, Utah and Wyoming.

8 Talisman completed the sale of its indirect interest in Syncrude on January 2, 2007.

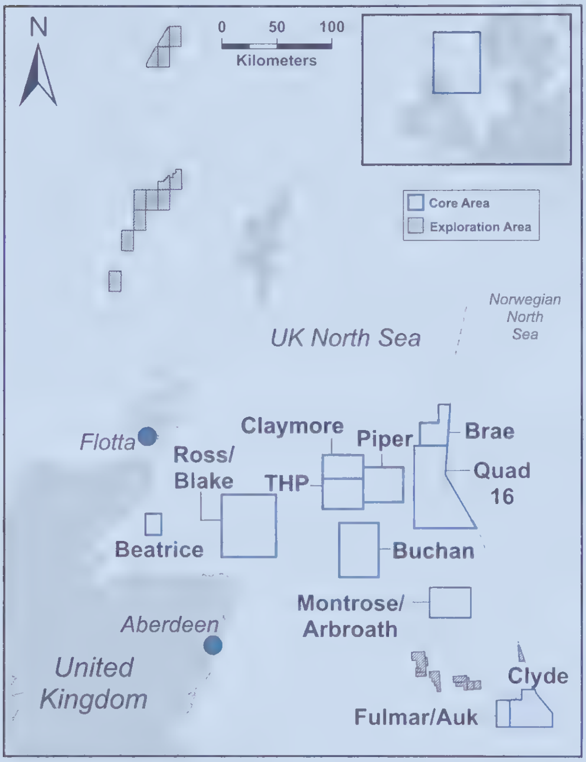
International

Talisman's international strategy focuses on opportunities in sedimentary basins that have a proven hydrocarbon system with significant reserves, production and exploration potential.

Talisman produces substantial oil and gas volumes in the UK (including the UK and the Netherlands sectors of the North Sea) and in Scandinavia (including the Norwegian and Danish sectors of the North Sea), with ongoing exploration and development activities in these areas. Talisman is active in Southeast Asia (including Indonesia, Malaysia, Vietnam, Papua New Guinea and Australia). In addition to the current oil and gas production in the UK, Scandinavia and Southeast Asia, development projects are expected to result in significant oil and gas production growth. Talisman has producing interests in North Africa (including Algeria and Tunisia) and in Trinidad and Tobago. Talisman also has exploration interests in Colombia, Peru and Qatar.

United Kingdom

Talisman's UK strategy is to develop commercial hubs around core operated properties and infrastructure, thereby allowing for growth by extending the life of these assets through low risk development opportunities, subsea tieback developments, exploration, secondary recovery, cost reduction and increased third party tariff revenue. Talisman also has a portfolio of non-operated assets.



Talisman's UK assets, which are held principally by Talisman Energy (UK) Limited and Talisman North Sea Limited, include producing fields and exploration acreage in the UK and the Netherlands sectors of the North Sea. The Paladin acquisition in 2005 added several producing assets and additional exploration acreage.

In 2006, Talisman acquired the Auk field and an additional 87% interest in the Fulmar field in the Central North Sea, resulting in Talisman now holding a 100% interest in both fields. In January 2007, Talisman was awarded interests in 10 exploration blocks in the UK North Sea, six of which are operated.

Talisman has three core UK operating areas: the Mid North Sea ("MNS") area, the Flotta Catchment area ("FCA") and the Greater Fulmar area ("GFA"). In addition, Talisman has non-operated interests, including interests in the Netherlands and Germany, and a number of new venture exploration licences. As at year-end 2006, Talisman operated approximately 66% of its UK production.

In 2007, Talisman's capital program in the UK is expected to be approximately $1.2 billion, with $150 million of exploration spending and $1,025 million of development spending. Talisman's 2007 UK drilling program includes participation in up to five exploration and 32 development wells (includes one Blane well shared with Scandinavia). Capital expenditures are also directed at development programs in eight fields, which are expected to significantly increase production in 2007 and 2008.

Mid North Sea

Talisman holds interests ranging from 25% to 100% in a number of production facilities and pipelines in the MNS area.

Montrose/Arbroath Area

Talisman's subsidiary holds a 59% operated interest in each of the Montrose, Arbroath, Arkwright, Brechin, Carnoustie and Wood fields obtained through the Paladin acquisition. In 2006, Talisman participated in one unsuccessful exploration well, drilled two development wells which are currently suspended, and was drilling a third development well over year-end.

In 2007, Talisman plans to complete the development of the Wood field with first oil production expected in the third quarter of 2007. Talisman expects that capital spending in 2007 in the Montrose/Arbroath area will be approximately $140 million and plans to complete the development of the Wood field and drill one exploration well and five development wells.

Buchan Area

Talisman holds an average 99% operated working interest in the Buchan field, the Hannay field, the Buchan floating production platform and the tie-in to the Forties pipeline. At the end of 2005, Talisman farmed out an exploration well, which was plugged and abandoned in January 2006. Also in 2006, Talisman drilled one successful exploration well. At year-end 2006, the Company was drilling another exploration well that was subsequently plugged and abandoned in February 2007. Talisman expects that capital spending in 2007 in the Buchan area will be approximately $15 million.

Ross/Blake Area

In the Ross/Blake area, Talisman holds a 69% operated interest in the Ross field and a 54% non-operated interest in the Blake field. Both fields are subsea tiebacks to the Talisman operated Bleo Holm, a leased floating production, storage and offloading vessel. In 2006, Talisman participated in an unsuccessful exploration well. Talisman expects that capital spending in 2007 in the Ross/Blake area will be approximately $74 million and plans to drill one exploration well and two development wells.

Beatrice Area

Talisman holds a 100% operated interest in the Beatrice Alpha, Bravo and Charlie platforms, as well as the Beatrice/Nigg Pipeline and the Nigg terminal. In 2006, Talisman completed the construction of two turbines for the offshore wind farm demonstrator project adjacent to the Beatrice field, and subsequently completed the installation of the first turbine. Installation of the second turbine is expected to occur in 2007. Talisman expects development spending in 2007 in the Beatrice area will be approximately $49 million for the implementation of a Produced Water Reinjection Program ("PWRI") to meet water quality regulations and for the upgrade of five water injector wells.

MNS Satellites

Talisman's UK subsidiaries hold a 25% operated interest in each of the Enoch and UK part of the Blane fields and a 52% operated interest in the Fiddich field. Equity in these fields was acquired primarily through the Paladin acquisition. The Blane field straddles the UK and Norwegian sectors of the North Sea and as a result is a cross median field whose owners have agreed to develop and operate the field as a single unit area. Talisman holds an additional 18% operated interest in the Blane field in the Norwegian sector of the North Sea, as described in the Gyda area, found in the Scandinavia section below.

In 2006, Talisman drilled three development wells (including two Blane wells shared with the Gyda area). Talisman expects that UK capital spending in 2007 will be approximately $49 million for the development of these three fields, including one development well (at Blane, which is shared with the Gyda area). First production is expected from Blane and Enoch in early 2007 and from Fiddich in 2009.

Other MNS Area Properties

Talisman holds a 37% and 60% operated interest in the Burghley and Beauly fields, respectively. At year-end 2006, Talisman was drilling a followup well on the Burghley discovery, which was subsequently abandoned for mechanical reasons. Talisman expects that capital spending in 2007 will be approximately $113 million primarily for the drilling of one exploration well and two development wells and for the development of the Burghley field, which is expected to be onstream in 2008.

Flotta Catchment Area

Talisman currently holds interests ranging from 6% to 100% in a number of production facilities and pipelines in the Flotta Catchment area ("FCA"), including an 80% interest in the Flotta terminal.

Piper Area

Talisman currently holds an 80% operated interest in the Piper, Saltire, Chanter and Iona fields, a 94% operated interest in the Tweedsmuir field and a 6% non-operated interest in the MacCulloch field. The Tweedsmuir development continued through 2006 with the drilling of one well and the installation of subsea and platform facilities. Talisman also drilled a development well at Chanter, which was still being drilled at year-end 2006. Talisman expects that capital spending in 2007 in the Piper area, which includes the Flotta terminal, will be approximately $110 million. The expenditures are primarily to complete the Tweedsmuir development, with first oil production expected in April 2007.

Claymore Area

Talisman's subsidiary holds operated interests ranging from 72% to 100% in the Claymore field and an 80% operated interest in the Scapa field. In 2006, Talisman drilled two development wells on the Claymore field and implemented a PWRI program. Talisman expects that capital spending in 2007 in the Claymore area will be approximately $139 million, which includes funding for six development wells and gas compression modifications.

THP Area

Talisman's subsidiary holds a 100% operated interest in the Tartan field and in the Highlander and Petronella subsea tieback satellite fields, a 67% operated interest in the Galley field, and a 50% operated interest in the Duart North field (collectively, "THP Area"). In 2006, Talisman drilled one development well in the THP Area and commenced the development of the Duart North field and the redevelopment of the Galley field. Talisman expects that capital spending in 2007 in the THP Area will be approximately $196 million, which includes plans to drill two development wells and complete development of the Duart North and the Galley tieback to the Tartan field.

Other FCA Area Properties

During 2006, Talisman divested its interests in the Renee (78%), Rubie (41%) and Ivanhoe/Rob Roy/Hamish (23%) fields through the sale of its subsidiary, Talisman Expro Limited. There was no significant development activity in these fields prior to divestiture.

Greater Fulmar Area

The 2006 acquisition of the Auk field and further interests in the Fulmar field led to the formation of a new core area in the UK: the Greater Fulmar Area ("GFA"). Talisman currently holds interests ranging from 33% to 100% in a number of production facilities and pipelines in the GFA.

Clyde Area

Talisman owns various operated interests in the Clyde area, including a 95% operated interest in the Clyde field and production platform, a 94% operated interest in the Orion field and a 33% non-operated interest in the Affleck field. In 2006, Talisman drilled two development wells in the Clyde area and commenced development of the Affleck field, with a well drilling over year-end. Also at year-end 2006, Talisman was participating in an exploration well, which was successful in January 2007. Talisman expects that capital spending in 2007 in the Clyde area will be approximately $103 million and plans to participate in one exploration and two development wells in the area and to complete the development of the Affleck field with first production expected in late 2007.

Fulmar/Auk Area

In 2006, Talisman acquired the remaining 87% interest in the Fulmar field bringing its interest to 100% (Blocks 30/11b and 30/16s) and a 100% interest in the Auk field (Blocks 30/16n and 30/16t). In December 2006, Talisman assumed operatorship of the two fields. The transaction builds on existing assets in the Clyde area in the Central North Sea and provides opportunity for reserves and production growth. Fulmar is a major infrastructure hub providing an export route for the operated Auk, Clyde and Orion fields and for third party production from the Gannet field. Talisman expects that capital spending in 2007 in the Fulmar/Auk area will be approximately $110 million and plans to drill one development well and commence redevelopment of the Auk field.

Non-Operated Interest Properties

Brae Area

Talisman's non-operated producing interests in the Brae area range from 13% to 18%. Talisman also holds a 9% non-operated interest in the Brae-St. Fergus gas pipeline and terminal. In 2006, Talisman participated in three development wells in the Brae area, with a fourth well drilled and awaiting completion over year-end. Two of Talisman's subsidiaries have entered into an agreement to sell Talisman's entire non-operated interests in the Brae assets. The sale, which is subject to government and third party consents, will have an effective date of January 1, 2007 and is expected to be completed later in 2007. Talisman plans to participate in four development wells in 2007 in the Brae area and expects that capital spending will be approximately $21 million, subject to adjustment following the sale of such assets later in 2007.

Other Non-Operated Interest Properties

Talisman's subsidiaries hold various non-operated producing interests in the following fields in the UK: Andrew (10%), Balmoral (15%), Glamis (15%), Stirling (15%), Wareham (5%) and Wytch Farm (5%). During 2006, Talisman divested its interests in Alba (2%), Bittern (2%), Caledonia (3%) and Goldeneye (8%) through the sale of its subsidiary, Talisman Expro Limited. In 2006, Talisman participated in drilling eight development wells, with another well drilling over year-end. Talisman expects that capital spending in 2007 at its other non-operated interest properties will be approximately $19 million and plans to participate in drilling six development wells.

The Netherlands

Talisman's subsidiary holds non-operated producing interests in the Netherlands sector of the North Sea ranging from 2% to 20%. In 2006, Talisman participated in drilling four development wells and one successful exploration well. Talisman expects that capital spending in the Netherlands sector in 2007 will be approximately $37 million and plans to participate in the drilling of one exploration well and one development well, in addition to the development of the K5f field.

Germany

In the German sector of the North Sea, Talisman's subsidiary holds a 50% non-operated working interest in one offshore licence covering portions of Blocks C, D, G and H. Talisman participated in an unsuccessful exploration well during 2006.

Landholdings, Production and Productive Wells

The following tables set forth Talisman's UK landholdings, production and productive wells as at December 31, 2006.

United Kingdom

	Developed[1]		Undeveloped		Total	
Property	Gross	Net	Gross	Net	Gross	Net
			(thousand acres)			
United Kingdom						
Mid North Sea Area						
Montrose / Arbroath Area	45.5	26.8	143.7	78.3	189.2	105.1
Buchan Area	12.7	12.6	125.3	62.9	138.0	75.5
Ross / Blake Area	35.2	21.8	273.0	116.9	308.2	138.7
Beatrice Area	15.0	15.0	13.4	13.4	28.4	28.4
MNS Satellites Area	–	–	–	–	–	–
Other MNS	–	–	66.5	28.3	66.5	28.3
Flotta Catchment Area						
Piper Area	37.9	23.7	130.2	61.5	168.1	85.2
Claymore Area	22.0	17.4	105.9	84.2	127.9	101.6
THP+G Area	21.7	21.7	116.6	67.5	138.3	89.2
Other FCA	–	–	–	–	–	–
Greater Fulmar Area						
Clyde Area	19.3	18.2	310.5	127.0	329.8	145.2
Fulmar / Auk Area	31.8	31.8	1.1	1.1	32.9	32.9
Other GFA	–	–	–	–	–	–
Non-Operated Areas						
Brae Area	28.8	5.0	34.2	5.9	63.0	10.9
Other Non-Operated Areas	26.7	4.6	814.0	460.5	840.7	465.1
Netherlands	217.1	26.4	128.0	64.0	345.1	90.4
Germany	–	–	1,536.0	768.0	1,536.0	768.0
Total	513.7	225.0	3,798.4	1,939.5	4,312.1	2,164.5

Note:

1 "Developed" acreage consists of acres spaced or assigned to productive wells.

United Kingdom

Property	Oil & Liquids Production Gross (bbls/d)	Oil & Liquids Production Net (bbls/d)	Natural Gas Production Gross (mmcf/d)	Natural Gas Production Net (mmcf/d)	Productive Wells[1,2,3] as at December 31, 2006 Gross	Productive Wells[1,2,3] as at December 31, 2006 Net
United Kingdom						
Mid North Sea Area						
Montrose / Arbroath Area	8,499	8,499	0.4	0.4	29	17.1
Buchan Area	9,772	9,520	0.4	0.4	11	8.9
Ross / Blake Area	14,948	14,948	3.3	3.3	20	12.0
Beatrice Area	2,317	2,317	–	–	28	28.0
MNS Satellites Area	–	–	–	–	3	1.1
Other MNS	661	661	0.2	0.2	1	0.6
Flotta Catchment Area						
Piper Area	12,352	12,352	–	–	33	20.5
Claymore Area	18,100	18,100	–	–	37	27.6
THP+G Area	8,032	8,032	1.2	1.2	27	23.7
Other FCA	–	–	–	–	–	–
Greater Fulmar Area						
Clyde Area	13,382	13,382	3.7	3.7	26	24.3
Fulmar / Auk Area[4]	981	981	–	–	30	30.0
Other GFA	–	–	–	–	–	–
Non-Operated Areas						
Brae Area[5]	7,185	6,359	70.5	63.9	78	10.7
Other Non-Operated Areas	6,380	6,398	25.8	25.8	107	6.8
Netherlands	133	133	20.1	20.1	30	2.2
Germany	–	–	–	–	–	–
Total	102,742	101,682	125.6	119.0	460	213.5

Notes:

1 "Productive Wells" means producing wells and wells capable of production.

2 Includes wells containing multiple completions as follows:

	Oil Wells	Gas Wells
Gross	22	–
Net	1.6	–

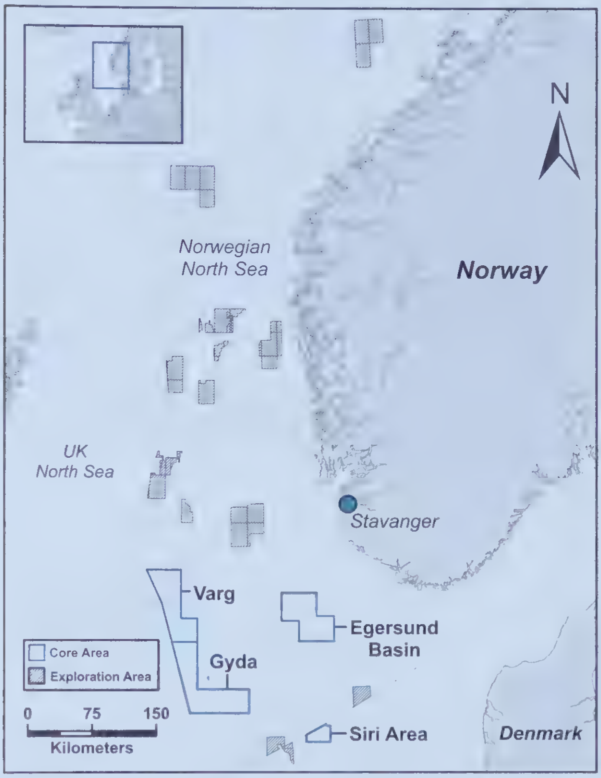
3 One or more completions in the same bore hole is counted as one well. A well is classified as an oil well if one of the multiple completions in a well is an oil completion.

4 Includes 30 newly-acquired Fulmar and Auk productive wells based on data provided by the previous operator.

5 Includes Talisman's non-operated producing interests in the Brae Area. Two of Talisman's subsidiaries have entered into an agreement to sell Talisman's entire non-operated interests in the Brae area. The sale, which is subject to government and third party consents, will have an effective date of January 1, 2007 and is expected to be completed later in 2007.

Scandinavia

Talisman's Scandinavian assets, which as of year-end were held by Talisman Energy Norge AS and Talisman Oil Denmark Limited, include producing fields and exploration acreage in the Norwegian and Danish sectors of the North Sea. At the end of 2006, Talisman operated approximately 59% of its Scandinavian production. In January 2007, Talisman was awarded additional acreage in the Norwegian North Sea.



Talisman's strategy for its Scandinavian assets is to apply the successful UK model of developing commercial hubs around core operated properties and infrastructure to Norway's relatively underexploited sector. In addition, the comparatively underdeveloped basins offer potential upside to Talisman's exploration portfolio.

In 2007, Talisman's capital program in Scandinavia is expected to be approximately $440 million, with $140 million directed to exploration spending and $300 million directed to development spending (excluding capitalized lease obligations). Talisman's 2007 drilling program in Scandinavia includes participation in up to seven exploration and 10 development wells (includes one Blane well shared with UK). Capital expenditures are also directed at field development programs that are expected to significantly increase production over the next three years.

Norway

A Talisman subsidiary holds interests ranging from 1% to 70% in a number of production facilities and pipelines in Norway.

Gyda Area

Talisman's subsidiary holds 61% and 18% operated interests in the Gyda and Norwegian portion of the Blane fields, respectively. The Blane field straddles the UK and Norwegian sectors of the North Sea and as a result is a cross median field whose owners have agreed to develop and operate the field as a single unit area. Talisman holds an additional 25% operated interest in the Blane field in the UK sector of the North Sea as described in the MNS Satellites section found above.

At the beginning of 2006, Talisman completed its participation in an unsuccessful exploration well. Also in 2006, Talisman drilled one successful exploration well, two development wells (Blane wells shared with the MNS Satellites), began installing gas lift facilities and initiated a PWRI program. At year-end 2006, Talisman was drilling a development well at Gyda, which was suspended in January 2007.

Talisman expects that capital spending in 2007 in the Gyda area will be approximately $88 million and plans to drill up to two exploration and two development wells (including one Blane well shared with the MNS Satellites) and to complete the gas lift and PWRI installations. In addition, the Blane field development is expected to be completed with first production in the first quarter of 2007.

Varg Area

A Talisman subsidiary holds 65% and 70% operated interests in the Varg and Rev fields, respectively (Rev was formerly called Varg South). In 2006, Talisman drilled one successful exploration well, which was suspended over year-end, and two development wells. A second successful exploration well was drilling over year-end, with drilling operations completed in February 2007. Talisman expects that capital spending in 2007 in the Varg area will be approximately $118 million and plans to complete two Rev wells and to continue development of the Rev field, with first production expected in the third quarter of 2008.

Other Norway Properties

A Talisman subsidiary holds a 70% operated interest in the Yme field and 34%, 34%, 27% and 1% non-operated interests in the Brage, Sognefjord, Veslefrikk and Huldra fields, respectively. The majority of these interests were acquired through the acquisition of Paladin in 2005. In early 2007, Talisman submitted a redevelopment plan for the Yme field, which was previously abandoned in 2001 at a time of low oil prices. The redevelopment is expected to recover significant remaining reserves in the Yme field. Also in early 2007, the working interest of the Brage and Sognefjord fields were harmonized to create a single Brage asset.

In 2006, Talisman drilled four development wells (including one injection well), with a further development well drilling over year-end. In January 2007, Talisman was awarded additional acreage in the area. One block is a small add-on to the Yme field and the other is new exploration acreage. Talisman expects that capital spending in 2007 in these areas will be approximately $231 million and plans to participate in drilling five exploration and six development wells and to commence redevelopment of the Yme field.

Denmark

In the Danish sector of the North Sea, Talisman acquired a 30% non-operated interest in the Siri field through the Paladin acquisition. In 2006, Talisman participated in a development well that was drilling over year-end. Talisman expects that capital spending in 2007 in Denmark will be $3 million.

Landholdings, Production and Productive Wells

The following tables set forth Talisman's Scandinavian landholdings, production and productive wells as at December 31, 2006.

Scandinavia

	Developed[1]		Undeveloped		Total	
Property	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
			(thousand acres)			
Norway						
Gyda Area	50.7	37.5	794.7	418.6	845.4	456.1
Varg Area	25.1	16.6	334.8	69.9	359.9	86.5
Egersund Basin Area	–	–	949.3	544.4	949.3	544.4
Other Norway	98.7	30.9	1,994.0	740.1	2,092.7	771.0
Denmark						
Siri Area	10.4	3.1	91.9	27.6	102.3	30.7
Other Denmark	–	–	38.3	9.2	38.3	9.2
Total	184.9	88.1	4,203.0	1,809.8	4,387.9	1,897.9

Note:

1 "Developed" acreage consists of acres spaced or assigned to productive wells.

Scandinavia

	Oil & Liquids Production		Natural Gas Production		Productive Wells[1,2,3] as at December 31, 2006	
Property	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
	(bbls/d)		(mmcf/d)			
Norway						
Gyda Area	7,441	7,441	8.2	8.2	21	12.7
Varg Area	9,642	9,642	–	–	14	9.2
Egersund Basin Area	–	–	–	–	–	–
Other Norway	12,335	12,335	6.1	6.1	55	14.6
Denmark						
Siri Area	3,056	2,909	–	–	6	1.8
Other Denmark	–	–	–	–	–	–
Total	32,474	32,327	14.3	14.3	96	38.3

Notes:

1 "Productive Wells" means producing wells and wells capable of production.

2 Includes wells containing multiple completions as follows:

	Oil Wells	Gas Wells
Gross	2	
Net	0.9	-

3 One or more completions in the same bore hole is counted as one well. A well is classified as an oil well if one of the multiple completions in a well is an oil completion.

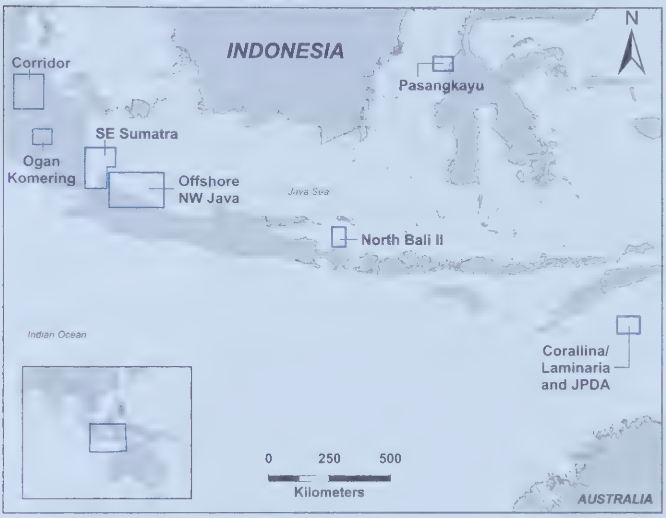
Southeast Asia

Talisman's interests in Southeast Asia include operations in Indonesia, Malaysia, Vietnam and Australia and exploration acreage containing an existing discovery in Papua New Guinea. Southeast Asia continues to be an area of opportunity and growth for Talisman.

In 2007, Talisman's capital program in Southeast Asia is expected to be approximately $670 million, with $515 million directed to development spending. Talisman's 2007 drilling program in Southeast Asia includes participation in up to 14 exploration wells and 58 development wells (including four injection wells). Capital expenditures are also directed at field development programs that are expected to significantly increase production in 2008.

Indonesia

In Indonesia, Talisman and its subsidiaries are continuing the development of the major natural gas discoveries at Corridor in order to deliver future production growth, the exploitation of existing oil properties and exploration activity.



Talisman expects that capital spending in 2007 in Indonesia will be approximately $100 million (including $1 million in Papua New Guinea) and plans to participate in up to four exploration and 36 development wells (including four injection wells).

Corridor PSC

Talisman (Corridor) Ltd. ("TCL"), a subsidiary of Talisman, has a 36% non-operated interest in the Corridor PSC and field production facilities. Production from Corridor began in 1998 with gas sales to PT Caltex Pacific Indonesian ("Caltex") at the Duri oil field. Gas sales to Caltex were augmented pursuant to an agreement signed in 2000. In September 2003, TCL commenced gas sales to Gas Supply Pte. Ltd., located in Singapore, under the terms of a 20-year gas sales agreement. Talisman Transgasindo Ltd., a subsidiary of Talisman, has an indirect 6% interest in the Grissik to Duri pipeline and in the Grissik to Singapore pipeline.

In August 2004, ConocoPhillips (Grissik) Ltd., as representative of the Corridor PSC contractors, entered into an agreement for the sale of gas to PT Perusahaan Gas Negara (Persero), Tbk. ("PGN"), the Indonesian national gas transmission and distribution company. This agreement covers the sale of 2.3 trillion cubic feet (gross sales) of natural gas from the Corridor PSC to the West Java market over a 16-year period commencing in the third quarter of 2007. The Suban Phase 2 gas expansion project was initiated to provide the gas processing facilities for this new sale to PGN. In late 2006, the installation of two new 200 mmcf/d capacity gas trains, additional pipelines and infrastructure were completed at the Suban Phase 2 expansion project. In February 2007, the existing gas plant was tied into the new gas sweetening trains. One well was drilled in 2006 and is currently constrained at 150 mmcf/d.

Talisman expects that capital spending in 2007 in the area will be approximately $41 million and plans to participate in the drilling of two development wells and to complete the Suban Phase 2 development.

Other Properties

Talisman's subsidiaries hold a 40% non-operated interest in the Corridor Technical Assistance Contract ("Corridor TAC"), a 50% operated interest in the Ogan Komering Block PSC ("OK Block"), a 7.5% non-operated interest in the Southeast Sumatra Block ("SES Block") and a 2.5% non-operated interest in the Offshore North West Java Block ("ONWJ Block"). In 2006, Talisman participated in 23 wells (including two successful exploration wells) on these other properties.

In December 2005, Talisman (Pasangkayu) Ltd., a subsidiary of Talisman, bid on the Pasangkayu Exploration Block as a 30% non-operator with Marathon International Petroleum Indonesia Limited. In September 2006, both companies and the Government of Indonesia signed the Pasangkayu PSC. Also in 2006, Talisman was awarded a Joint Study Agreement for the North Bali II area. In March 2007, a Talisman subsidiary was awarded the Sageri Block in the South Makassar Basin, offshore Indonesia.

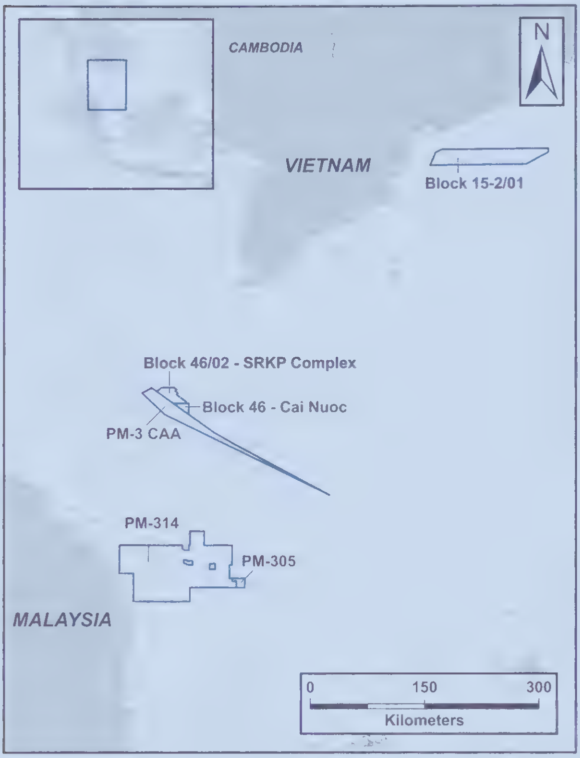
Talisman expects that capital spending in 2007 in these areas will be approximately $58 million and plans to drill up to four exploration and 34 development wells (including four injection wells). Exploration expenditure will focus on seismic acquisition in preparation for the 2008 Pasangkayu drilling program and additional new venture opportunities.

Papua New Guinea

Talisman holds an operated interest in offshore Papua New Guinea Block PRL 1 (48%), which contains a natural gas discovery, and in Block PPL-244 (35%), which is exploration acreage. Talisman expects minor capital expenditures in Papua New Guinea in 2007.

Malaysia and Vietnam

In Malaysia and Vietnam, Talisman's strategy is to develop oil and natural gas fields and to deliver production growth through exploration and development. Talisman operates three of its five working interest properties in Malaysia and Vietnam: Block PM-3 CAA/Block 46-Cai Nuoc, Block PM-305 and Block PM-314. Block 46/02 and Block 15-2/01 in Vietnam are each operated by a joint operating company. Total capital spending in Malaysia and Vietnam is expected to be approximately $540 million in 2007.



Block PM-3 CAA and 46-Cai Nuoc

Two of Talisman's subsidiaries, Talisman Malaysia Limited and Talisman Malaysia (PM3) Limited, collectively hold a 41% operated interest in Block PM-3 CAA and associated production facilities in Malaysia. Talisman Vietnam Limited, another subsidiary, holds a 33% operated interest in the adjacent Block 46 Cai Nuoc area in Vietnam. Part of that area and part of the PM-3 CAA were unitized in 1998 to become the East Bunga Kekwa-Cai Nuoc unit. In 2005, additional acreage was granted to Block PM-3 CAA along the southeastern border of the block.

In 2006, Block PM-3 CAA Southern Fields development continued with the drilling and completion of ten wells (including three injection wells) and the Bunga Raya-A Platform facility work/upgrades. The Bunga Raya-E gas processing facility topside was successfully installed in 2006 and is expected to be fully operational in the first quarter of 2007. Installation of the Bunga Tulip platform and facilities was completed with first oil production in the fourth quarter of 2006.

Initial work for the Block PM-3 CAA Northern Fields development project commenced in August 2006 and the preparatory engineering work for the facility is ongoing. Most of the major contracts such as the Bunga Orchid-A central production platform topside and structure and the three wellhead riser platforms have been awarded. The contracts for floating storage and offloading vessel and offshore installation are still at tendering stage. First gas production from the Northern Fields project is expected in early 2008 followed by first oil production later in 2008. Talisman also drilled a successful exploration well in the Northern PM-3 CAA area.

Natural gas is sold under a long-term contract to Petroliam Nasional Berhad and Vietnam Oil and Gas Corporation, the national oil companies of Malaysia and Vietnam, respectively. During 2006, the Ca Mau Pipeline connecting PM-3 CAA facilities to Vietnam was completed and Talisman is expecting to export gas, including third party volumes, to Vietnam in the second quarter of 2007.

Talisman expects that capital spending in 2007 in the area will be approximately $359 million and plans to drill two exploration wells and 15 development wells and to continue the development of the Northern Fields.

Block PM-305

TML holds a 60% operated interest in Block PM-305 offshore Malaysia. The South Angsi field, discovered in 2003, was brought on production in 2005. The Kuning field, a followup discovery in 2005, was brought on production in conjunction with the South Angsi field. In 2006, one development well was drilled to further develop the Kuning field.

Negotiations to unitize the Murai oil pool with the Angsi Southern channel pool to the north continued in 2006. In December 2006, Petronas Carigalli drilled the Angsi C-4 well in a structural saddle on the block boundary and proved continuity of oil between the Angsi and Murai fields. During the year, Talisman relinquished its exploration acreage in the block, retaining the South Angsi development area sub-block.

Talisman expects that capital spending in 2007 in the area will be approximately $39 million and plans to drill one exploration well.

Block PM-314

TML holds a 60% operated interest in Block PM-314 PSC incurring 100% of the cost during the exploration phase. In 2006, Talisman drilled two development wells (including one injection well) in the previously discovered Naga Kecil field. The Company expects that capital spending in 2007 in the area will be approximately $15 million and plans to drill up to four exploration wells.

Block 46/02

Talisman (Vietnam 46/02) Ltd. holds a 30% interest in the Truong Son Joint Operating Company, with the remainder held by the wholly owned exploration and production subsidiaries of the national petroleum companies of Vietnam and Malaysia. In 2006, the Song Doc development was approved and sanctioned. During the year, Talisman relinquished its exploration acreage in the block, retaining the Song Doc development area.

Talisman expects that capital spending in 2007 in Block 46/02 will be approximately $28 million, primarily to continue development of the Song Doc – Rach Tau – Khanh My – Pha Tan ("SRKP") area, with first oil production expected in 2008.

Block 15-2/01

Talisman (Vietnam 15-2/01) Ltd., a subsidiary of Talisman, holds a 60% interest in Block 15-2/01 and is responsible for 100% of its cost during the exploration phase. During 2006, Talisman drilled its first exploration well in the block, which was successfully tested in January 2007. A sidetrack to an adjacent structure was successfully drilled and a further followup appraisal sidetrack is underway.

Talisman expects that capital spending in 2007 in Block 15-2/01 will be approximately $99 million and plans to drill three exploration wells in the block.

Australia

Talisman's subsidiaries hold a 40% and 33% non-operated interest in the Laminaria and Corallina fields, respectively, and a 25% non-operated interest in the Joint Petroleum Development Area ("JPDA") – JPDA 06-105. The JPDA is a joint exploration and production area shared by Timor-Leste and Australia. In 2006, Talisman participated in one unsuccessful exploration well. Talisman expects that capital spending in 2007 in Australia will be approximately $30 million and plans to participate in the drilling of one development well and the refurbishment of facilities.

Landholdings, Production and Productive Wells

The following tables set forth Talisman's Southeast Asia landholdings, production and productive wells as at December 31, 2006.

Southeast Asia

	Developed[1]		Undeveloped		Total	
Property	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
			(thousand acres)			
Indonesia						
Corridor PSC	150.5	54.2	407.6	146.7	558.1	200.9
Other[2]	361.1	53.7	5,255.4	686.9	5,616.5	740.6
Malaysia & Vietnam						
Block PM-3 CAA and 46-Cai Nuoc	224.4	92.5	277.3	113.7	501.7	206.2
Block PM-305	43.9	26.3	–	–	43.9	26.3
Block PM-314	–	–	2,309.8	1,385.9	2,309.8	1,385.9
Block 46/02	–	–	188.4	56.5	188.4	56.5
Block 15-2/01	–	–	699.8	419.9	699.8	419.9
Australia	9.2	3.6	488.9	140.9	498.1	144.5
Papua New Guinea	–	–	858.2	325.1	858.2	325.1
Total	789.1	230.3	10,485.4	3,275.6	11,274.5	3,505.9

Notes:

1 "Developed" acreage consists of acres spaced or assigned to productive wells.

2 "Other" includes Corridor TAC, OK PSC, SES Block, ONWJ Block and Pasangkayu PSC.

Southeast Asia

Property	Oil & Liquids Production Gross (bbls/d)	Oil & Liquids Production Net[4]	Natural Gas Production Gross (mmcf/d)	Natural Gas Production Net[4]	Productive Wells[1,2,3] as at December 31, 2006 Gross	Productive Wells[1,2,3] as at December 31, 2006 Net
Indonesia						
Corridor PSC	2,401	1,211	189.5	137.7	121	43.3
Other[4,5]	8,435	3,713	15.2	10.5	1,860	219.6
Malaysia & Vietnam						
Block PM-3 CAA and 46-Cai Nuoc	18,164	8,260	87.1	65.9	53	21.7
Block PM-305	13,172	7,112	–	–	7	4.2
Block PM-314	2,043	1,548	–	–	1	0.6
Block 46/02	–	–	–	–	–	–
Block 15-2/01	–	–	–	–	–	–
Australia	7,367	7,367	–	–	8	3.1
Papua New Guinea	–	–	–	–	–	–
Total	51,582	29,211	291.8	214.1	2,050	292.5

Notes:

1 "Productive Wells" means producing wells and wells capable of production.

2 Includes wells containing multiple completions as follows:

	Oil Wells	Gas Wells
Gross	81	4
Net	11.6	0.1

3 One or more completions in the same bore hole is counted as one well. A well is classified as an oil well if one of the multiple completions in a well is an oil completion.

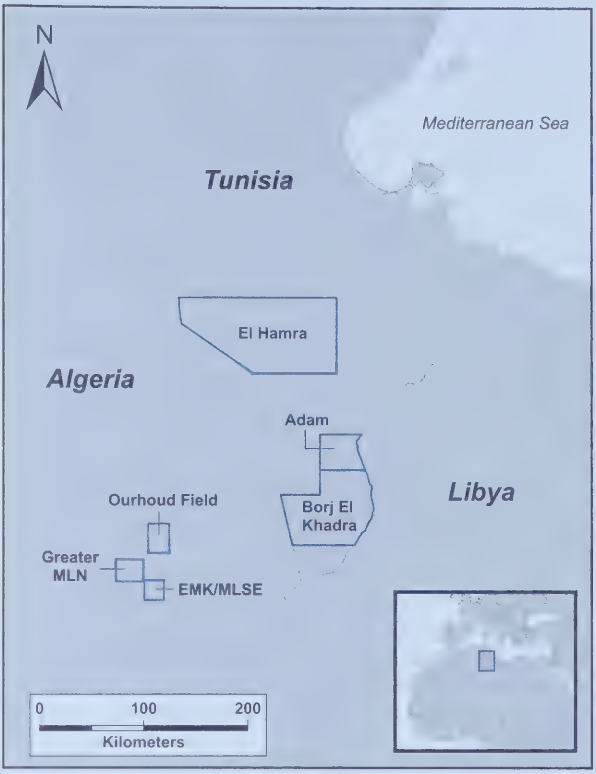
4 Interests of the Indonesian, Malaysian and Vietnam governments, other than working interests or income taxes, are accounted for as royalties.

5 "Other" includes 764 suspended and shut-in wells in the SES Block and ONWJ Block, which relate to the Company's acquisition of Paladin in November 2005.

Other

North Africa

Talisman's interests in North Africa include operations in Algeria and Tunisia.



Algeria

Talisman (Algeria) B.V., a subsidiary of Talisman, holds a 35% non-operated interest in Block 405a under a PSC with Algeria's national oil company, Sonatrach. Block 405a contains the Greater Menzel Lejmat North ("Greater MLN") fields, a portion of the Ourhoud field, the Menzel Lejmat Southeast ("MLSE") field and a portion of the El Merk ("EMK") field (originally part of the MLSE field).

Talisman expects that capital spending in 2007 in Algeria will be approximately $53 million, which includes funding for 17 development wells, the completion of the Greater MLN Phase 2 development and commencement of the El Merk Project described below.

Greater MLN

Greater MLN facilities include a central processing facility ("CPF") and gas compression for reservoir pressure maintenance. Phase 2 expansion of the CPF for full pressure maintenance of additional MLN reservoirs is expected to be completed in mid-2007. Eight development wells were drilled in 2006 (including five injection wells), with one additional well drilling at year-end. Talisman expects that capital spending in 2007 in the Greater MLN area will be approximately $36 million and plans to participate in drilling two development wells and to complete the Phase 2 development project.

Ourhoud

Talisman holds a 2% working interest in the Ourhoud Unit, which straddles Block 405a, Block 404 and Block 406. Production from the Ourhoud Unit is expected to remain at plateau levels throughout 2007. Development drilling is ongoing with eight wells drilled in 2006 (including four injection wells). Talisman expects that capital spending in 2007 in the Ourhoud Unit will be approximately $3 million and plans to participate in 11 development wells.

EMK Field

In 2005, Talisman signed a pre-unit agreement for the EMK field, which straddles Block 405a and Block 208. Talisman also signed a Memorandum of Understanding for the joint construction and operation of shared process facilities for the EMK field plus four other fields located in Block 208 and Block 212 (collectively, the "El Merk Project"). Since execution of the Memorandum of Understanding, Blocks 404a and 403a have been added with respect to natural gas liquids recovery. An initial Engineering Design Contract for the El Merk Project was executed in 2006, the front-end engineering and design portion of which has been completed. Six appraisal wells were drilled in the EMK field in 2006. Talisman expects capital spending in 2007 in the EMK field to be approximately $13 million and plans to participate in four development wells and the commencement of field development. First oil production is expected in 2010.

Tunisia

In 2005, as a result of the Paladin acquisition, Talisman acquired interests in the Borj El Khadra Permit in Tunisia. The Company holds a 5% non-operated interest in the Adam concession portion of the permit (which contains the Adam, Dalia, Hawa, Janet and Nour fields) and a 10% interest in the remainder of the permit. During 2006, Talisman (Tunisia) Inc. entered into an agreement to farm-in to the El Hamra Block to earn a 50% non-operated interest, subject to government back-in rights. A request for government approval was submitted in early 2007. Two development wells were drilled in 2006, with a third well drilled and suspended over year-end. Also at year-end 2006, Talisman was participating in two exploration wells, both of which were successful in January 2007.

Talisman expects that capital spending in 2007 in Tunisia will be approximately $6 million and plans to participate in drilling five exploration wells and two development wells and to acquire seismic in the El Hamra Block.

Trinidad and Tobago

Talisman holds a 25% non-operated interest in the Angostura development area of Block 2(c) and a 36% interest in the Block 2(c) Howler assessment area located to the south. The 36% interest is comprised of the 25% original interest plus an additional 11% interest, subject to a reinstatement right. In February 2006, Talisman relinquished the exploration area of Block 2(c), retaining only the Howler assessment area.

In 2006, Talisman participated in the drilling of four development wells on Block 2(c) and the planning of the Phase 2 Angostura Gas Project. The Phase 2 gas project is expected to provide for first gas production in 2009.

Talisman's subsidiary, Talisman (Trinidad Block 3a) Ltd., holds a 26% interest in the PSC on Block 3(a), immediately to the east of Block 2(c). During 2006, Talisman participated in the successful Kingbird exploration well. The subsequent followup well, the Ruby exploration well, was also successful. A second followup well was drilling over year-end and was subsequently plugged and abandoned in January 2007.

In 2002, Talisman (Trinidad) Petroleum Ltd., a Talisman subsidiary, acquired the right to earn an operated 65% interest in the onshore Eastern Block. This block is comprised of approximately 108,000 gross acres, of which the Government of Trinidad and Tobago holds the mineral rights to approximately 95,000 acres and the balance is freehold title. At the start of 2006, drilling operations were completed on an unsuccessful exploration well. During 2006, two further unsuccessful exploration wells were spud, one of which was drilling over year-end 2006 and was subsequently abandoned in early 2007.

Talisman expects that capital spending in 2007 in Trinidad and Tobago will be approximately $65 million and plans to participate in drilling up to seven exploration and four development wells and to commence the Phase 2 Angostura gas development.

Colombia

In Colombia, Talisman (Colombia) Oil & Gas Ltd. ("TCOG"), a subsidiary of Talisman, is participating in an exploration program in a proven hydrocarbon basin.

TCOG holds a 70% non-operated interest in the Acevedo Block in the Upper Magdalena Valley region. In the Acevedo Block, the subsidiary is currently carrying out an environmental remediation program. Talisman also holds a 100% operated interest in the El Caucho Block held under a Technical Evaluation Agreement ("TEA"). During 2006, Talisman commenced the relinquishment of a 35% non-operated interest in the El Conchal Block TEA.

In the Llanos Foothills region of North Central Colombia, TCOG holds a 30% non-operated interest in the Tangara and Mundo Nuevo blocks. In December 2006, TCOG reached an agreement with TEPMA to increase its interest in the Tangara block to a 67% non-operated interest, which is subject to governmental approval. In July 2004, the non-operated Tangara-1 exploration well was spud on the Tangara block. During 2006, additional sidetrack operations, in which Talisman elected not to participate, were conducted by two of the joint venture parties on this well. The well was subsequently plugged and abandoned in May 2006.

In 2006, TCOG was part of a winning bid for the Niscota exploration block in the Llanos overthrust belt and obtained a 30% non-operated interest.

Talisman expects that capital spending in 2007 in Colombia will be approximately $17 million in order to acquire seismic in preparation for future drilling.

Peru

Talisman (Peru) Ltd., a subsidiary of Talisman, holds a 25% non-operated interest in Peru's Block 64 in the Marañon Basin and a 100% operated interest in the adjacent Block 101, of which 72% is subject to governmental approval. Negotiations are ongoing to farmout interest in Block 101. Talisman is currently evaluating options in Peru, including additional drilling. Talisman expects that capital spending in 2007 in Peru will be approximately $9 million, primarily to acquire seismic in preparation for future drilling.

Qatar

Talisman's subsidiaries hold a 100% interest in an Exploration and Production Sharing Agreement for offshore Block 10 in Qatar. At the start of the year, drilling operations were completed on an unsuccessful well. During the year, a second unsuccessful well was drilled.

Talisman expects that capital spending in 2007 in Qatar will be approximately $24 million and plans to drill up to two exploration wells, fulfilling the exploration commitment in the block.

Other

Talisman's strategy is to expand activity in core producing areas and to add new ventures where appropriate. Talisman actively investigates new ventures outside core producing areas and this will continue in 2007. During 2006, Talisman participated in an unsuccessful well in Gabon. As part of the continuing strategy of rationalizing its assets, Talisman divested its interests in the Bahamas, Gabon and Romania in 2006.

Landholdings, Production and Productive Wells

The following tables set forth Talisman's landholdings and, where applicable, production and productive wells as at December 31, 2006 in North Africa, Trinidad and Tobago, Colombia, Peru and Qatar.

Other

	Developed[1]		Undeveloped		Total	
Property	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
			(thousand acres)			
Algeria						
Block 405a[2]	11.2	3.9	–	–	11.2	3.9
Ourhoud Unit	65.6	1.3	–	–	65.6	1.3
Tunisia						
Adam Concession	3.9	0.2	20.9	1.0	24.8	1.2
Borj El Khadra Permit	–	–	783.8	78.4	783.8	78.4
Trinidad and Tobago						
Offshore						
Block 2(c)	23.5	5.9	11.3	4.0	34.8	9.9
Block 3(a)	–	–	151.6	38.7	151.6	38.7
Onshore						
Eastern Block	–	–	108.3	70.4	108.3	70.4
Other	–	–	6,397.9	3,830.4	6,397.9	3,830.4
Total	104.2	11.3	7,473.8	4,022.9	7,578.0	4,034.2

Notes:

1 "Developed" acreage consists of acres spaced or assigned to productive wells.

2 "Block 405a" includes Greater MLN, MLSE and EMK.

Other

Property	Oil & Liquids Production Gross	Oil & Liquids Production Net[4]	Natural Gas Production Gross	Natural Gas Production Net[4]	Productive Wells[1,2,3] as at December 31, 2006 Gross	Productive Wells[1,2,3] as at December 31, 2006 Net
	(bbls/d)		(mmcf/d)			
Algeria						
Block 405a[5]	7,677	4,461	–	–	41	9.4
Ourhoud Unit	4,712	2,537	–	–	41	0.8
Tunisia						
Adam Concession	804	676	0.4	0.3	10	0.5
Borj El Khadra Permit	–	–	–	–	–	–
Trinidad and Tobago						
Offshore						
Block 2(c)	8,366	7,142	–	–	15	3.8
Block 3(a)	–	–	–	–	–	–
Onshore						
Eastern Block	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	21,559	14,816	0.4	0.3	107	14.5

Notes:

1 "Productive Wells" means producing wells and wells capable of production.

2 Includes wells containing multiple completions as follows:

	Oil Wells	Gas Wells
Gross	3	–
Net	0.2	–

3 One or more completions in the same bore hole is counted as one well. A well is classified as an oil well if one of the multiple completions in a well is an oil completion.

4 Interests of the Algerian, Tunisian and Trinidad and Tobago governments, other than working interests or income taxes, are accounted for as royalties.

5 "Block 405a" includes Greater MLN, MLSE and EMK.

Productive Wells and Acreage

The following table shows the number of productive wells[1] in which Talisman had a working interest, as well as developed and undeveloped acres assignable to such wells, as of December 31, 2006. Undeveloped acreage is considered to be those lease acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas regardless of whether or not such acreage contains proved reserves.

	Productive Wells[1] as at December 31, 2006		Acreage	
	Oil Wells[2]	Gas Wells[2]	Developed	Undeveloped
			(thousand acres)	
North America[3]				
Gross	5,008	5,436	3,425.6	13,641.8
Net	2,720.1	2,948.2	1,788.5	7,923.0
United Kingdom[4,5]				
Gross	427	33	513.7	3,798.4
Net	210.2	3.3	225.0	1,939.5
Scandinavia				
Gross	88	8	184.9	4,203.0
Net	37.6	0.7	88.1	1,809.8
Southeast Asia[6]				
Gross	1,933	117	789.1	10,485.4
Net	272.9	19.6	230.3	3,275.6
Other[7]				
Gross	103	4	104.2	7,473.8
Net	13.1	1.4	11.3	4,022.9
Total				
Gross	7,559	5,598	5,017.5	39,602.4
Net	3,253.9	2,973.2	2,343.2	18,970.8

Notes:

1 "Productive Wells" means producing wells and wells capable of production.

2 Includes wells containing multiple completions as follows:

	Oil Wells	Gas Wells
Gross	560	1,336
Net	286.7	720.9

One or more completions in the same bore hole is counted as one well. A well is classified as an oil well if one of the multiple completions in a well is an oil completion. Talisman completed the sale of its interests in Syncrude on January 2, 2007.

3 "North America" acreage includes acreage related to Talisman's indirect interest in Syncrude, which was subsequently sold on January 2, 2007. "North America" productive wells does not include wells related to Syncrude as it is considered a mining operation.

4 Includes 30 newly acquired Fulmar and Auk productive wells based on data provided by the previous operator.

5 Includes Talisman's non-operated producing interests in the Brae area. Two of Talisman's subsidiaries have entered into an agreement to sell Talisman's entire non-operated interests in the Brae area. The sale, which is subject to government and third party consents, will have an effective date of January 1, 2007 and is expected to be completed later in 2007.

6 "Southeast Asia" includes 764 suspended and shut-in wells in the SES PSC and ONWJ PSC, which relate to the Company's acquisition of Paladin in November 2005 which was not reflected previously.

7 "Other" includes Colombia, Peru, Qatar and Scotian Slope.

Drilling Activity

The following tables set forth the number of wells[1] Talisman has drilled and tested or participated in drilling and testing, and the net[2] interest of Talisman in such wells for each of the last three fiscal years. The number of wells drilled refers to the number of wells completed at any time during the fiscal years, regardless of when drilling was initiated. The term "completion" refers to the installation of permanent equipment for the production of oil and gas, or, in the case of a dry hole, to reporting of abandonment to the appropriate agency.

Year Ended			Exploration				Development				Total			
December 31, 2006			Oil[3]	Gas[3]	Dry[4]	Total	Oil[3]	Gas[3]	Dry[4]	Total	Oil[3]	Gas[3]	Dry[4]	Total
North America														
	Canada	Gross	8	110	3	**121**	186	353	7	**546**	194	463	10	**667**
		Net	4.2	75.7	1.6	**81.5**	91.8	235.2	7.0	**334.0**	96.0	310.9	8.6	**415.5**
	United States	Gross	–	33	1	**34**	–	–	–	–	–	33	1	**34**
		Net	–	27.1	1.0	**28.1**	–	–	–	–	–	27.1	1.0	**28.1**
	Frontiers[5]	Gross	–	–	–	–	–	–	–	–	–	–	–	–
		Net	–	–	–	–	–	–	–	–	–	–	–	–
United Kingdom														
	United Kingdom	Gross	1	–	2	**3**	20	–	–	**20**	21	–	2	**23**
		Net	0.9	–	0.3	**1.2**	7.3	–	–	**7.3**	8.2	–	0.3	**8.5**
	Netherlands	Gross	–	1	–	**1**	–	4	–	**4**	–	5	–	**5**
		Net	–	0.1	–	**0.1**	–	0.2	–	**0.2**	–	0.3	–	**0.3**
	Germany	Gross	–	–	1	**1**	–	–	–	–	–	–	1	**1**
		Net	–	–	0.5	**0.5**	–	–	–	–	–	–	0.5	**0.5**
Scandinavia														
	Norway	Gross	1	–	1	**2**	5	–	–	**5**	6	–	1	**7**
		Net	0.6	–	0.4	**1.0**	2.1	–	–	**2.1**	2.7	–	0.4	**3.1**
	Denmark	Gross	–	–	–	–	–	–	–	–	–	–	–	–
		Net	–	–	–	–	–	–	–	–	–	–	–	–
Southeast Asia														
	Indonesia	Gross	2	–	–	**2**	10	9	3	**22**	12	9	3	**24**
		Net	0.1	–	–	**0.1**	0.2	1.5	0.2	**1.9**	0.3	1.5	0.2	**2.0**
	Malaysia/Vietnam	Gross	–	1	–	**1**	7	2	1	**10**	7	3	1	**11**
		Net	–	0.4	–	**0.4**	3.3	0.8	0.4	**4.5**	3.3	1.2	0.4	**4.9**
	Australia	Gross	–	–	1	**1**	–	–	–	–	–	–	1	**1**
		Net	–	–	0.3	**0.3**	–	–	–	–	–	–	0.3	**0.3**
Other														
	Algeria	Gross	5	–	1	**6**	7	–	–	**7**	12	–	1	**13**
		Net	0.5	–	0.1	**0.6**	1.1	–	–	**1.1**	1.6	–	0.1	**1.7**
	Tunisia	Gross	–	–	–	–	2	–	–	**2**	2	–	–	**2**
		Net	–	–	–	–	0.1	–	–	**0.1**	0.1	–	–	**0.1**
	Trinidad and Tobago	Gross	2	–	2	**4**	3	1	–	**4**	5	1	2	**8**
		Net	0.5	–	1.3	**1.8**	0.8	0.3	–	**1.1**	1.3	0.3	1.3	**2.9**
	Other[6]	Gross	–	–	4	**4**	–	–	–	–	–	–	4	**4**
		Net	–	–	1.7	**1.7**	–	–	–	–	–	–	1.7	**1.7**
Total		Gross	**19**	**145**	**16**	**180**	**240**	**369**	**11**	**620**	**259**	**514**	**27**	**800**
		Net	**6.8**	**103.3**	**7.2**	**117.3**	**106.7**	**238.0**	**7.6**	**352.3**	**113.5**	**341.3**	**14.8**	**469.6**

Year Ended December 31, 2005		Exploration				Development				Total			
		Oil[3]	Gas[3]	Dry[4]	Total	Oil[3]	Gas[3]	Dry[4]	Total	Oil[3]	Gas[3]	Dry[4]	Total
North America													
Canada	Gross	12	114	11	**137**	159	363	8	**530**	171	477	19	**667**
	Net	8.3	72.8	7.7	**88.8**	66.7	216.7	6.0	**289.4**	75.0	289.5	13.7	**378.2**
United States	Gross	–	18	–	**18**	–	–	–	**–**	–	18	–	**18**
	Net	–	13.0	–	**13.0**	–	–	–	**–**	–	13.0	–	**13.0**
Frontiers[5]	Gross	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**
	Net	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**
United Kingdom													
United Kingdom	Gross	3	–	5	**8**	18	–	1	**19.0**	21	–	6	**27**
	Net	2.3	–	2.5	**4.8**	6.8	–	1.0	**7.8**	9.1	–	3.5	**12.6**
Netherlands	Gross	–	–	–	**–**	–	2	–	**2**	–	2	–	**2**
	Net	–	–	–	**–**	–	0.2	–	**0.2**	–	0.2	–	**0.2**
Germany	Gross	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**
	Net	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**
Scandinavia													
Norway	Gross	–	–	1	**1**	5	–	–	**5**	5	–	1	**6**
	Net	–	–	0.7	**0.7**	3.2	–	–	**3.2**	3.2	–	0.7	**3.9**
Denmark	Gross	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**
	Net	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**
Southeast Asia													
Indonesia	Gross	–	–	2	**2**	–	–	–	**–**	–	–	2	**2**
	Net	–	–	0.3	**0.3**	–	–	–	**–**	–	–	0.3	**0.3**
Malaysia/Vietnam	Gross	6	–	2	**8**	7	3	–	**10**	13	3	2	**18**
	Net	2.9	–	1.2	**4.1**	3.6	1.2	–	**4.8**	6.5	1.2	1.2	**8.9**
Australia	Gross	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**
	Net	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**
Other													
Algeria	Gross	–	–	–	**–**	9	–	–	**9**	9	–	–	**9**
	Net	–	–	–	**–**	0.7	–	–	**0.7**	0.7	–	–	**0.7**
Tunisia	Gross	1	–	–	**1**	–	–	–	**–**	1	–	–	**1**
	Net	0.1	–	–	**0.1**	–	–	–	**–**	0.1	–	–	**0.1**
Trinidad and Tobago	Gross	–	–	2	**2**	1	–	–	**1**	1	–	2	**3**
	Net	–	–	0.6	**0.6**	0.3	–	–	**0.3**	0.3	–	0.6	**0.9**
Other[7]	Gross	1	–	–	**1**	–	–	–	**–**	1	–	–	**1**
	Net	0.3	–	–	**0.3**	–	–	–	**–**	0.3	–	–	**0.3**
Total	Gross	**23**	**132**	**23**	**178**	**199**	**368**	**9**	**576**	**222**	**500**	**32**	**754**
	Net	**13.9**	**85.8**	**13.0**	**112.7**	**81.3**	**218.1**	**7.0**	**306.4**	**95.2**	**303.9**	**20.0**	**419.1**

Year Ended December 31, 2004		Exploration				Development				Total			
		Oil[3]	Gas[3]	Dry[4]	Total	Oil[3]	Gas[3]	Dry[4]	Total	Oil[3]	Gas[3]	Dry[4]	Total
North America													
Canada	Gross	16	123	15	**154**	121	301	23	**445**	137	424	38	**599**
	Net	13.4	64.0	11.5	**88.9**	66.9	183.0	18.6	**268.5**	80.3	247.0	30.1	**357.4**
United States	Gross	–	20	1	**21**	–	–	–	**–**	–	20	1	**21**
	Net	–	15.9	1.0	**16.9**	–	–	–	**–**	–	15.9	1.0	**16.9**
Fronitiers[5]	Gross	–	–	1	**1**	–	–	–	**–**	–	–	1	**1**
	Net	–	–	0.3	**0.3**	–	–	–	**–**	–	–	0.3	**0.3**
United Kingdom													
United Kingdom	Gross	3	–	6	**9**	15	–	1	**16**	18	–	7	**25**
	Net	1.9	–	4.3	**6.2**	4.8	–	0.8	**5.6**	6.7	–	5.1	**11.8**
Netherlands	Gross	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**
	Net	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**
Germany	Gross	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**
	Net	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**
Scandinavia													
Norway	Gross	–	–	–	–	2		–	**2**	2	–	–	**2**
	Net	–	–	–	–	1.2	–	–	**1.2**	1.2	–	–	**1.2**
Southeast Asia													
Indonesia	Gross	–	–	2	**2**	9	–	–	**9**	9	–	2	**11**
	Net	–	–	0.7	**0.7**	3.8	–	–	**3.8**	3.8	–	0.7	**4.5**
Malaysia/Vietnam	Gross	1	–	3	**4**	12	2	1	**15**	13	2	4	**19**
	Net	0.4	–	1.6	**2.0**	5.0	0.8	0.4	**6.2**	5.4	0.8	2.0	**8.2**
Other													
Algeria	Gross	–	–	–	–	3	–	–	**3**	3	–	–	**3**
	Net	–	–	–	–	0.1	–	–	**0.1**	0.1	–	–	**0.1**
Trinidad and Tobago	Gross	1	1	–	**2**	11	–	1	**12**	12	1	1	**14**
	Net	0.3	0.3	–	**0.6**	2.8	–	0.3	**3.1**	3.1	0.3	0.3	**3.7**
Other[8]	Gross	–	–	3	**3**	–	–	–	**–**	–	–	3	**3**
	Net	–	–	1.3	**1.3**	–	–	–	**–**	–	–	1.3	**1.3**
Total	Gross	**21**	**144**	**31**	**196**	**173**	**303**	**26**	**502**	**194**	**447**	**57**	**698**
	Net	**16.0**	**80.2**	**20.7**	**116.9**	**84.6**	**183.8**	**20.1**	**288.5**	**100.6**	**264.0**	**40.8**	**405.4**

Notes:

1 The number of wells refers to gross wellbores, which is the total number of wells Talisman has drilled or participated in drilling, with a working interest. Service wells, including water injection, gas injection, water source and water disposal wells are not included. Multilaterals from the same wellbore are counted as a single wellbore. Stratigraphic test wells are included.

2 "Net" wellbores are the aggregate of the percentage working interest of the Company in each of the gross wellbores. Data is rounded to the nearest decimal and summed.

3 A productive oil or gas well is an exploratory or development well that is not a dry well.

4 A dry well (hole) is an exploratory or development well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.

5 "Frontiers" includes Alaska.

6 "Other" for the year ended December 31, 2006 includes Qatar, Colombia and Gabon.

7 "Other" for the year ended December 31, 2005 includes Peru.

8 "Other" for the year ended December 31, 2004 includes Colombia and Peru.

The following table shows the number of wells in the process of drilling, suspended or in active completion stages as of December 31, 2006.

		Wells in the process of drilling, suspended or active completion[1]	
		Exploration	Development
North America			
	Gross	51	74
	Net	42.1	47.8
United Kingdom			
	Gross	3	8
	Net	1.4	3.6
Scandinavia			
	Gross	2	3
	Net	1.4	1.2
Southeast Asia			
	Gross	1	7
	Net	0.6	1.4
Other[2]			
	Gross	4	2
	Net	1.1	0.4
Total			
	Gross	**61**	**94**
	Net	**46.6**	**54.4**

Notes:

1 The number of wells refers to gross wellbores, which is the total number of wells Talisman has drilled or participated in drilling, with a working interest. Service wells, including water injection, gas injection, water source and water disposal wells are not included. Multilaterals from the same wellbore are counted as a single wellbore. Stratigraphic test wells are included.

2 Other includes Algeria, Tunisia and Trinidad and Tobago.

Reserves Estimates

Talisman's oil and gas reserves are evaluated internally. The exemption under NI 51-101 described under "Note Regarding Reserves Data and Other Oil and Gas Information", in addition to permitting Talisman to provide disclosure in accordance with US standards, exempts Talisman from the requirement under NI 51-101 to have its reserves evaluated or audited by independent reserves evaluators. NI 51-101 and its companion policy specifically contemplate the granting of such an exemption to issuers such as Talisman who produce over 100,000 boe/d and are able to demonstrate the internal capability to generate reliable reserves data. The following discussion is provided pursuant to the requirements of the exemption.

Talisman understands that the purpose of the requirement under NI 51-101 for the involvement of independent qualified evaluators or auditors is to ensure that disclosure of reserves information reflects the conclusions of qualified professionals applying consistent standards and that such conclusions are not affected by adverse influences. Talisman believes that using independent evaluators or auditors would not materially enhance the reliability of its reserves estimates in light of the expertise of its internal reserves evaluation personnel and the controls applied during its reserves evaluation process. Talisman believes that its internal resources are at least as extensive as, if not greater than, those which would be assigned by any independent evaluators or auditors engaged by the Company, and that its internal staff's knowledge of and experience with the Company's reserves enable the Company to prepare an evaluation at least equivalent to that of any independent evaluator or auditor.

As at December 2006, the Company's internal reserves evaluation staff included approximately 133 persons with full-time or part-time responsibility for reserves evaluation with an average of approximately 17 full-time or part-time years of relevant experience in evaluating reserves, of whom 45 were "qualified reserves evaluators" for purposes of NI 51-101. The Company's internal reserves evaluation management personnel included approximately 40 persons with full-time or part-time responsibility for reserves evaluation management with an average of approximately 23 full-time or part-time years of relevant experience in evaluating and managing the evaluation of reserves, 17 of whom were qualified reserves evaluators for purposes of NI 51-101. The Company has appointed an Internal Qualified Reserves Evaluator ("IQRE") who reports directly to the Chief Executive Officer and is responsible for the preparation and validation of the Company's reserves evaluation and the submission to the Company's Board of Directors of a report thereon as required by the NI 51-101 exemption. The Company's IQRE is Michael Adams, a graduate of Imperial College, London University with a BSc. in Physical Chemistry and an MSc. in Petroleum Engineering. Mr. Adams has over 30 years of petroleum engineering experience internationally and in North America. He is a professional engineer registered in Alberta and a chartered engineer registered in the UK.

Talisman has adopted a corporate policy that prescribes procedures and standards to be followed in preparing its reserves data. The following summarizes Talisman's current process for preparing and approving its publicly disclosed reserves data.

All of Talisman's proved reserves are evaluated annually. Talisman employs qualified, competent, experienced engineers to ensure consistently high levels of professionalism in the estimation of its reserves data. Technical, cost and economic assumptions underpinning reserves estimates are documented to provide a clear audit trail.

Talisman conducts formal reviews during the proved reserves estimation process to ensure the reasonableness, completeness and accuracy of input data; the appropriateness of the technical subsurface methodology; the full understanding of reserves movements; and the correct use of reserves classifications. All reserves estimates are reviewed and approved by the Executive Vice-Presidents of the operating areas and then submitted to the Company's executive operating committee, comprised of the Chief Executive Officer, the Executive Vice-Presidents and the Chief Financial Officer of the Company, for review and approval. In addition, the IQRE conducts a separate review to ensure the effectiveness of the disclosure controls and that the reserves estimates are free from material misstatement. The reserves data and the report of the IQRE are then reviewed by the Reserves Committee of the Board of Directors. The Reserves Committee and the IQRE have independent access to each other. Once approved by the Reserves Committee, the reserves data is submitted to the Board of Directors for final approval.

Notwithstanding that Talisman is exempt from the independent evaluator requirements of NI 51-101, Talisman obtains annual audits by independent external engineering consultants of its reserves estimates for some of its properties on a rotating basis. Over the past four years, the Company's estimates for approximately 86% of its current proved reserves (on a boe basis) have been independently audited. The audits have not revealed any material discrepancies. Talisman's Reserves Data Policy and Procedures Manual (the "Reserves Manual") was originally reviewed by external engineering consultants in 2003. The Reserves Committee of the Board of Directors approved minor changes to the details of some of Talisman's internal reserves processes in December 2005. Talisman also conducts periodic internal audits of the procedures, records and controls relating to the preparation of reserves data.

Accordingly, Talisman considers the reliability of its internally generated reserves data to be not materially less than would be afforded by the independent evaluator requirements of NI 51-101.

The following table sets forth Talisman's estimates of its proved developed, proved undeveloped, total proved, probable and total proved plus probable reserves as at December 31, 2006.

	Proved Developed[2]		Proved Undeveloped[3]		Total Proved[1]		Total Probable[4]		Total Proved and Probable	
	Gross[5]	Net[6]	Gross[5]	Net[6]	Gross[5]	Net[6]	Gross[5]	Net[6]	Gross[5]	Net[6]
Oil and Natural Gas Liquids (millions of barrels)										
North America										
Canada	156.4	130.1	10.2	8.2	166.6	138.3	64.8	54.6	231.4	192.9
United States	–	–				–	–	–	–	–
United Kingdom										
United Kingdom	255.6	252.8	125.1	124.9	380.7	377.7	269.0	267.9	649.7	645.6
Netherlands	0.1	0.1	–	–	0.1	0.1	–	–	0.1	0.1
Scandinavia										
Norway	23.2	23.2	35.7	35.7	58.9	58.9	73.1	73.1	132.0	132.0
Denmark	2.5	2.4	0.5	0.5	3.0	2.9	1.7	1.5	4.7	4.4
Southeast Asia										
Indonesia[7]	30.4	12.2	5.6	2.1	36.0	14.3	10.9	4.3	46.9	18.6
Malaysia/Vietnam[7]	28.2	13.2	22.5	14.9	50.7	28.1	66.6	34.3	117.3	62.4
Australia	11.6	11.5	–	–	11.6	11.5	4.5	4.5	16.1	16.0
Other										
Algeria	35.3	18.6	15.3	7.3	50.6	25.9	50.8	25.0	101.4	50.9
Tunisia	1.1	0.9	0.3	0.3	1.4	1.2	0.5	0.4	1.9	1.6
Trinidad and Tobago[7]	6.9	6.3	–	–	6.9	6.3	2.1	2.0	9.0	8.3
Total	**551.3**	**471.3**	**215.2**	**193.9**	**766.5**	**665.2**	**544.0**	**467.6**	**1,310.5**	**1,132.8**
Natural Gas (billions of cubic feet)										
North America										
Canada	2,162.5	1,747.1	498.8	406.7	2,661.3	2,153.8	1,252.9	1,009.0	3,914.2	3,162.8
United States	132.5	113.8	11.3	10.0	143.8	123.8	61.2	53.5	205.0	177.3
United Kingdom										
United Kingdom	82.2	79.0	47.6	46.1	129.8	125.1	150.9	146.0	280.7	271.1
Netherlands	44.2	44.2	8.8	8.8	53.0	53.0	40.6	40.6	93.6	93.6
Scandinavia										
Norway	8.6	8.6	67.7	67.7	76.3	76.3	68.8	68.8	145.1	145.1
Denmark	–		–	–	–	–	–	–	–	–
Southeast Asia										
Indonesia[7]	1,255.9	856.8	446.6	317.4	1,702.5	1,174.2	738.5	507.9	2,441.0	1,682.1
Malaysia/Vietnam[7]	51.9	38.7	354.4	237.8	406.3	276.5	265.3	141.5	671.6	418.0
Australia	–	–	–	–	–	–	–	–	–	–
Other										
Algeria	–	–	–	–	–	–	–	–	–	–
Tunisia	0.5	0.5	1.7	1.5	2.2	2.0	0.7	0.7	2.9	2.7
Trinidad and Tobago[7]	–	–	227.7	227.3	227.7	227.3	71.1	70.9	298.8	298.2
Total	**3,738.3**	**2,888.7**	**1,664.6**	**1,323.3**	**5,402.9**	**4,212.0**	**2,650.0**	**2,038.9**	**8,052.9**	**6,250.9**
Synthetic Oil[8] (millions of barrels)										
Canada	38.9	32.0	–	–	38.9	32.0	23.9	19.7	62.8	51.7

Notes:

1 "Proved" reserves have been estimated in accordance with the SEC definition set out in Rule 4-10(a) of Regulation S-X under the Securities Exchange Act of 1934 as follows: Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

2 "Proved Developed" reserves are those reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

3 "Proved Undeveloped" reserves are those reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells for which a relatively major expenditure is required for recompletion. Inclusion of reserves on undrilled acreage is limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units are included only if it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Estimates for proved undeveloped reserves are not attributed to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

4 "Probable" reserves are less certain than proved reserves and have been estimated in accordance with the definition set out by the Society of Petroleum Engineers and the World Petroleum Congress ("SPE/WPC"). That is, probable reserves are those unproved reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable.

5 "Gross" proved reserves refer to the sum of (i) working interest reserves before deduction of royalty burdens payable, (ii) royalty interest reserves and (iii) net profits interests. Royalty interest reserves and net profit interests volumes for Canada were approximately 3.1 mmboe as at December 31, 2006. The inclusion of royalty interest and net profit interest volumes in gross reserves does not conform to COGEH standards applicable under NI 51-101.

6 "Net" reserves are the remaining reserves of Talisman, after deduction of estimated royalty burdens and including royalty interests and net profit interests in the amount set out in note 5 above. The inclusion of net profit interest volumes in net reserves is consistent with SEC requirements for net reserves disclosure, but does not conform to COGEH standards applicable under NI 51-101.

7 Interests of various governments, other than working interests or income taxes, are accounted for as royalties. Royalties are reflected in "net" reserves using effective rates over the life of the contract.

8 The reserves volumes shown have been calculated by Talisman based on reserves estimates and production information published by the general partner of the limited partnership through which Talisman held an indirect 1.25% interest in Syncrude as at December 31, 2006. Talisman completed the sale of its indirect interest in Syncrude on January 2, 2007.

A report on reserves data by Talisman's IQRE and a report of management and directors on oil and gas disclosure are provided in Schedules A and B, respectively, to this Annual Information Form. Talisman does not file estimates of its total oil and gas reserves with any US agency or federal authority other than the SEC.

Other Oil and Gas Information

The tables are prepared by Talisman in accordance with US disclosure standards, including FAS69, and reflect activities from assets that are classified as both continuing operations and, until disposed of, discontinued operations for financial reporting purposes.

Continuity of Net Proved Reserves[1]

	North America[2]	United Kingdom	Scandinavia[3]	Southeast Asia[4]	Other[5]	Total
Crude Oil and Liquids (mmbbls)						
Total proved						
Proved reserves at December 31, 2003	158.4	240.8	14.2	52.5	34.7	**500.6**
Discoveries, additions and extensions	14.0	29.7	–	2.0	8.1	**53.8**
Purchase of reserves	0.2	34.0	–	0.9	–	**35.1**
Sale of reserves	(2.1)	(3.3)	–	–	–	**(5.4)**
Net revisions and transfers	(2.5)	26.8	(2.8)	(1.3)	(6.9)	**13.3**
2004 Production	(15.8)	(42.1)	(2.2)	(7.9)	(3.1)	**(71.1)**
Proved reserves at December 31, 2004	152.2	285.9	9.2	46.2	32.8	**526.3**
Discoveries, additions and extensions	10.6	42.3	2.1	16.4	3.8	**75.2**
Purchase of reserves	0.1	32.8	41.9	17.0	0.7	**92.5**
Sale of reserves	–	–	(0.9)	–	–	**(0.9)**
Net revisions and transfers	(5.2)	30.1	1.6	(16.0)	1.1	**11.6**
2005 Production	(15.5)	(38.6)	(9.3)	(7.7)	(6.6)	**(77.7)**
Proved Reserves at December 31, 2005	142.2	352.5	44.6	55.9	31.8	**627.0**
Discoveries, additions and extensions	8.4	28.7	28.6	(2.9)	7.3	**70.1**
Purchase of reserves	–	26.2	–	–	–	**26.2**
Sale of reserves	(7.3)	(6.8)	–	–	–	**(14.1)**
Net revisions and transfers	9.3	14.3	0.4	11.6	(0.3)	**35.3**
2006 Production	(14.3)	(37.1)	(11.8)	(10.7)	(5.4)	**(79.3)**
Proved Reserves at December 31, 2006	138.3	377.8	61.8	53.9	33.4	**665.2**
Proved Developed						
December 31, 2003	155.4	207.9	3.9	18.6	14.6	**400.4**
December 31, 2004	142.6	247.6	4.7	19.2	27.0	**441.1**
December 31, 2005	132.0	274.2	34.8	35.8	22.3	**499.1**
December 31, 2006	130.1	252.9	25.6	36.9	25.8	**471.3**

	North America[2]	United Kingdom	Scandinavia[3]	Southeast Asia[4]	Other[5]	Total
Natural Gas (bcf)						
Total proved						
Proved reserves at December 31, 2003	2,080.7	222.2	13.4	986.7	211.0	**3,514.0**
Discoveries, additions and extensions	370.6	8.0	–	521.9	–	**900.5**
Purchase of reserves	19.1	0.1	–	–	–	**19.2**
Sale of reserves	(57.1)	(0.5)	–	–	–	**(57.6)**
Net revisions and transfers	(19.2)	(23.2)	(3.2)	93.5	5.5	**53.4**
2004 Production	(260.6)	(38.3)	(1.2)	(47.3)	–	**(347.4)**
Proved reserves at December 31, 2004	2,133.5	168.3	9.0	1,554.8	216.5	**4,082.1**
Discoveries, additions and extensions	274.9	23.1	0.3	81.7	–	**380.0**
Purchase of reserves	11.7	56.9	4.4	30.8	1.2	**105.0**
Sale of reserves	(1.1)	–	–	–	–	**(1.1)**
Net revisions and transfers	2.5	15.8	(2.3)	(94.0)	(2.9)	**(80.9)**
2005 Production	(265.6)	(33.0)	(3.2)	(73.1)	–	**(374.9)**
Proved reserves at December 31, 2005	2,155.9	231.1	8.2	1,500.2	214.8	**4,110.2**
Discoveries, additions and extensions	356.8	33.1	65.9	(18.9)	14.8	**451.7**
Purchase of reserves	2.9	–	–	–	–	**2.9**
Sale of reserves	(35.8)	(20.5)	–	–	–	**(56.3)**
Net revisions and transfers	51.1	(28.1)	7.4	47.7	(0.2)	**77.9**
2006 Production	(253.3)	(37.5)	(5.2)	(78.3)	(0.1)	**(374.4)**
Proved reserves at December 31, 2006	2,277.6	178.1	76.3	1,450.7	229.3	**4,212.0**
Proved Developed						
December 31, 2003	1,890.4	199.5	1.2	593.9	–	**2,685.0**
December 31, 2004	1,788.2	148.0	2.0	624.0	–	**2,562.2**
December 31, 2005	1,771.8	174.9	6.2	548.8	0.8	**2,502.5**
December 31, 2006	1,860.9	123.2	8.6	895.5	0.5	**2,888.7**

Notes:

1 For definitions of reserves, see the notes found on pages 33 and 34 of this Annual Information Form.

2 North American net proved reserves exclude synthetic crude oil reserves: 2004 – 35.2 mmbbls; 2005 – 34.3 mmbbls; and 2006 – 32.0 mmbbls.

3 Scandinavia for 2003 and 2004 includes Norway, but excludes Denmark.

4 Southeast Asia for 2003 and 2004 includes Indonesia and Malaysia/Vietnam, but excludes Australia.

5 Other for 2003 and 2004 includes Algeria and Trinidad and Tobago, but excludes Tunisia.

Standardized Measure of Discounted Future Net Cash Flows From Proved Reserves

Future net cash flows were calculated by applying the respective year-end prices to the Company's estimated future production of proved reserves and deducting estimates of future development, asset retirement, production and transportation costs and income taxes. Future costs have been estimated based on existing economic and operating conditions. Future income taxes have been estimated based on statutory tax rates enacted at year-end. The present values of the estimated future cash flows were determined by applying a 10% discount rate prescribed by the FASB.

In order to increase the comparability between companies, the standardized measure of discounted future net cash flows necessarily employs uniform assumptions that do not necessarily reflect management's best estimate of future events and anticipated outcomes. Accordingly, the Company does not believe that the standardized measure of discounted future net cash flows will be representative of actual future net cash flows and should not be considered to represent the fair market value of the oil and gas properties. Actual future net cash flows will differ significantly from estimates due to, but not limited to, the following:

- production rates will differ from those estimated both in terms of timing and amount. For example, future production may include significant additional volumes from unproved reserves;
- future prices and economic conditions will differ from those at year-end. For example, changes in prices decreased the discounted future net cash flows by $4 billion in 2006;
- future production and development costs will be determined by future events and will differ from those at year-end; and
- estimated income taxes will differ in terms of amounts and timing dependent on the above factors, changes in enacted rates and the impact of future expenditures on unproved properties.

The standardized measure of discounted future net cash flows was prepared using the following prices:

	2006	2005	2004
Crude oil and liquids ($/bbl)			
North America[1,4]	**55.04**	50.95	34.27
United Kingdom[2]	**67.72**	66.31	46.59
Scandinavia[2]	**68.50**	68.38	48.48
Southeast Asia	**68.32**	65.88	44.01
Other[3]	**69.22**	67.49	47.30
	65.22	62.83	42.66
Natural Gas ($/mcf)			
North America[1]	**6.72**	10.87	7.32
United Kingdom[2]	**7.68**	10.90	6.20
Scandinavia[2]	**7.73**	3.69	7.14
Southeast Asia	**4.99**	4.87	3.54
Other[3]	**2.79**	2.17	1.81
	5.93	8.03	5.47

Notes:

1 During the second quarter of 2006, the Company made changes to the North America reporting segment to include activities in Alaska, which previously had been included in the Other reporting segment. Reclassifications have been made for all corresponding reported periods.

2 The reporting segments entitled United Kingdom and Scandinavia, which were reported in aggregate as the North Sea in 2005 and 2004, are now reported separately in 2006. Reclassifications have been made for all corresponding reported periods.

3 The reporting segment entitled Other for 2006 includes North Africa (Algeria and Tunisia) and Trinidad and Tobago, which were reported separately in 2005 and 2004. Reclassifications have been made for all corresponding reported periods.

4 The price for Talisman's crude oil in North Amercia is lower than other oil prices as it is a heavier grade.

Discounted Future Net Cash Flows from Proved Reserves

As at December 31 (millions of C$)	North America[2]	United Kingdom[3]	Scandinavia[3]	Southeast Asia	Other[4]	Total
2006						
Future Cash Inflows[1]	23,058	26,963	4,821	10,875	2,959	**68,676**
Future Costs						
Transportation	(640)	(879)	(254)	(617)	(78)	**(2,468)**
Production	(6,225)	(13,442)	(1,996)	(1,849)	(448)	**(23,960)**
Development and asset retirement	(2,670)	(6,175)	(1,332)	(1,293)	(244)	**(11,714)**
Future net inflows before income taxes	13,523	6,467	1,239	7,116	2,189	**30,534**
Future income and production revenue taxes	(3,231)	(3,118)	(406)	(2,953)	(866)	**(10,574)**
Future net cash flows	10,292	3,349	833	4,163	1,323	**19,960**
10% discount factor	(4,279)	(51)	(273)	(1,832)	(506)	**(6,941)**
Discounted future net cash flows	**6,013**	**3,298**	**560**	**2,331**	**817**	**13,019**
2005						
Future Cash Inflows[1]	30,776	25,891	3,084	11,039	2,627	**73,417**
Future Costs						
Transportation	(649)	(659)	(105)	(661)	(70)	**(2,144)**
Production	(5,148)	(9,499)	(1,077)	(1,645)	(412)	**(17,781)**
Development and asset retirement	(2,601)	(3,483)	(470)	(980)	(196)	**(7,730)**
Future net inflows before income taxes	22,378	12,250	1,432	7,753	1,949	**45,762**
Future income and production revenue taxes	(6,793)	(5,719)	(778)	(3,282)	(737)	**(17,309)**
Future net cash flows	15,585	6,531	654	4,471	1,212	**28,453**
10% discount factor	(6,330)	(1,477)	(102)	(1,899)	(452)	**(10,260)**
Discounted future net cash flows	9,255	5,054	552	2,572	760	**18,193**
2004						
Future Cash Inflows[1]	20,825	14,406	510	7,525	1,925	**45,191**
Future Costs						
Transportation	(501)	(442)	(52)	(655)	(61)	**(1,711)**
Production	(4,847)	(6,856)	(172)	(1,235)	(276)	**(13,386)**
Development and asset retirement	(2,138)	(3,107)	(107)	(770)	(143)	**(6,265)**
Future net inflows before income taxes	13,339	4,001	179	4,865	1,445	**23,829**
Future income and production revenue taxes	(3,650)	(1,658)	(66)	(1,959)	(507)	**(7,840)**
Future net cash flows	9,689	2,343	113	2,906	938	**15,989**
10% discount factor	(3,845)	(295)	(7)	(1,402)	(280)	**(5,829)**
Discounted future net cash flows	5,844	2,048	106	1,504	658	**10,160**

Notes:

1 Net oil and gas revenue derived from proved reserves is net of applicable royalties.

2 During the second quarter of 2006, the Company made changes to the North America reporting segment to include activities in Alaska, which previously had been included in the Other reporting segment. Reclassifications have been made for all corresponding reported periods.

3 The reporting segments entitled United Kingdom and Scandinavia, which were reported in aggregate as the North Sea in 2005 and 2004, are now reported separately in 2006. Reclassifications have been made for all corresponding reported periods.

4 The reporting segment entitled Other for 2006 includes North Africa (Algeria and Tunisia) and Trinidad and Tobago, which were reported separately in 2005 and 2004. Reclassifications have been made for all corresponding reported periods.

Principal Sources of Changes in Discounted Cash Flows

Years ended December 31 (millions of C$)	2006	2005	2004
Sales of oil and gas produced, net of production costs	**(6,416)**	(6,193)	(3,866)
Net change in prices	**(4,021)**	12,824	3,506
Net change in transportation costs	**51**	68	(954)
Net change in production costs	**(3,255)**	(1,163)	410
Net change in future development and asset retirement	**(2,208)**	(426)	(638)
Development costs incurred during the year	**1,864**	1,256	623
Extensions, discoveries and improved recovery	**2,340**	3,267	2,386
Revisions of previous reserve estimates	**676**	802	(615)
Net purchases and sales of reserves in place	**(478)**	3,250	150
Accretion of discount	**2,869**	1,522	1,263
Net change in taxes	**2,965**	(6,934)	(598)
Other	**439**	(240)	257
Net change	**(5,174)**	8,033	1,924
Balance, beginning of year	**18,193**	10,160	8,236
Balance, end of year	**13,019**	18,193	10,160

Results of Operations from Oil and Gas Producing Activities

Years ended December 31 (millions of C$)	North America[2]	United Kingdom[3]	Scandinavia[3]	Southest Asia	Other[4]	Total
2006						
Net oil and gas revenue derived from proved reserves[1]	2,836	2,923	886	1,329	374	**8,348**
Less: Production costs	511	740	259	161	36	**1,707**
Transportation	73	72	27	46	7	**225**
Exploration and dry hole expense	302	51	42	38	182	**615**
Depreciation, depletion and amortization	997	532	248	224	69	**2,070**
Tax expense (recovery)	286	876	235	405	69	**1,871**
Results of operations	**667**	**652**	**75**	**455**	**11**	**1,860**
2005						
Net oil and gas revenue derived from proved reserves[1]	3,160	2,651	614	974	408	7,807
Less: Production costs	442	665	180	87	35	1,409
Transportation	74	64	15	43	9	205
Exploration and dry hole expense	265	67	39	50	94	515
Depreciation, depletion and amortization	906	552	157	144	83	1,842
Tax expense (recovery)	543	651	175	270	93	1,732
Results of operations	930	652	48	380	94	2,104
2004						
Net oil and gas revenue derived from proved reserves[1]	2,304	1,927	111	729	156	5,227
Less: Production costs	392	602	60	98	17	1,169
Transportation	75	66	–	42	9	192
Exploration and dry hole expense	280	134	4	45	86	549
Depreciation, depletion and amortization	729	644	45	174	30	1,622
Tax expense (recovery)	209	286	2	152	8	657
Results of operations	619	195	–	218	6	1,038

Notes:

1 Net oil and gas revenue derived from proved reserves is net of applicable royalties.

2 During the second quarter of 2006, the Company made changes to the North America reporting segment to include activities in Alaska, which previously had been included in the Other reporting segment. Reclassifications have been made for all corresponding reported periods.

3 The reporting segments entitled United Kingdom and Scandinavia, which were reported in aggregate as the North Sea in 2005 and 2004, are now reported separately in 2006. Reclassifications have been made for all corresponding reported periods.

4 The reporting segment entitled Other for 2006 includes North Africa (Algeria and Tunisia) and Trinidad and Tobago, which were reported separately in 2005 and 2004. Reclassifications have been made for all corresponding reported periods. The segment also includes exploration interests in other countries.

Capitalized Costs Relating to Oil and Gas Activities

Years ended December 31 (millions of C$)	North America[1]	United Kingdom[2]	Scandinavia[2]	Southeast Asia	Other[3]	Total
2006						
Proved properties	9,915	9,808	1,701	2,346	609	**24,379**
Unproved properties	351	1,280	291	66	71	**2,059**
Incomplete wells and facilities	162	10	15	30	2	**219**
	10,428	11,098	2,007	2,442	682	**26,657**
Less: Accumulated depreciation, depletion and amortization	3,060	4,764	449	911	197	**9,381**
Net capitalized costs	**7,368**	**6,334**	**1,558**	**1,531**	**485**	**17,276**
2005						
Proved properties	10,125	7,577	1,221	1,877	396	21,196
Unproved properties	312	924	373	90	170	1,869
Incomplete wells and facilities	117	2	4	41	36	200
	10,554	8,503	1,598	2,008	602	23,265
Less: Accumulated depreciation, depletion and amortization	4,069	3,871	191	586	123	8,840
Net capitalized costs	6,485	4,632	1,407	1,422	479	14,425
2004						
Proved properties	8,680	6,789	220	1,487	431	17,607
Unproved properties	224	48	6	16	41	335
Incomplete wells and facilities	49	3	–	46	47	145
	8,953	6,840	226	1,549	519	18,087
Less: Accumulated depreciation, depletion and amortization	3,195	3,954	52	501	42	7,744
Net capitalized costs	5,758	2,886	174	1,048	477	10,343

Notes:

1 During the second quarter of 2006, the Company made changes to the North America reporting segment to include activities in Alaska, which previously had been included in the Other reporting segment. Reclassifications have been made for all corresponding reported periods.

2 The reporting segments entitled United Kingdom and Scandinavia, which were reported in aggregate as the North Sea in 2005 and 2004, are now reported separately in 2006. Reclassifications have been made for all corresponding reported periods.

3 The reporting segment entitled Other for 2006 includes North Africa (Algeria and Tunisia) and Trinidad and Tobago, which were reported separately in 2005 and 2004. Reclassifications have been made for all corresponding reported periods. The segment also includes exploration interests in other countries.

Costs Incurred in Oil and Gas Activities

Years ended December 31 (millions of C$)	North America[1]	United Kingdom[2]	Scandinavia[2]	Southeast Asia	Other[3]	Total
2006						
Property acquisition costs						
Proved	17	29	3	–	–	**49**
Unproved	322	183	–	3	–	**508**
Exploration costs	758	138	102	68	161	**1,227**
Development costs	1,179	1,086	230	259	88	**2,842**
Asset retirement costs	60	434	1	15	3	**513**
Total costs incurred	**2,336**	**1,870**	**336**	**345**	**252**	**5,139**
2005						
Property acquisition costs						
Proved	222	1,032	955	220	15	2,444
Unproved	130	919	350	64	–	1,463
Exploration costs	589	126	39	73	137	964
Development costs	853	738	129	231	46	1,997
Asset retirement costs	90	(97)	142	29	5	169
Total costs incurred	1,884	2,718	1,615	617	203	7,037
2004						
Property acquisition costs						
Proved	77	234	(1)	–	–	310
Unproved	204	65	6	–	–	275
Exploration costs	483	146	4	54	96	783
Development costs	785	319	38	201	166	1,509
Asset retirement costs	36	42	9	3	7	97
Total costs incurred	1,585	806	56	258	269	2,974

Notes:

1 During the second quarter of 2006, the Company made changes to the North America reporting segment to include activities in Alaska, which previously had been included in the Other reporting segment. Reclassifications have been made for all corresponding reported periods.

2 The reporting segments entitled United Kingdom and Scandinavia, which were reported in aggregate as the North Sea in 2005 and 2004, are now reported separately in 2006. Reclassifications have been made for all corresponding reported periods.

3 The reporting segment entitled Other for 2006 includes North Africa (Algeria and Tunisia) and Trinidad and Tobago, which were reported separately in 2005 and 2004. Reclassifications have been made for all corresponding reported periods. The segment also includes exploration interests in other countries.

Product Netbacks (Net of royalties)[1,2]

Net of Royalties – US$		2006	2005	2004
North America	Oil and liquids (US$/bbl)			
	Sales price	**50.06**	43.55	32.44
	Hedging loss	**–**	4.16	5.81
	Transportation	**0.64**	0.52	0.48
	Operating costs	**9.57**	7.54	6.55
		39.85	31.33	19.60
	Natural gas (US$/mcf)			
	Sales price	**6.27**	7.51	5.26
	Hedging (gain) loss	**(0.28)**	–	0.10
	Transportation	**0.20**	0.20	0.19
	Operating costs	**1.15**	0.93	0.76
		5.20	6.38	4.21
United Kingdom	Oil and liquids (US$/bbl)			
	Sales price	**63.48**	53.10	37.17
	Hedging (gain) loss	**0.47**	(0.02)	6.06
	Transportation	**1.35**	1.01	0.91
	Operating costs	**17.66**	13.99	9.80
		44.00	38.12	20.40
	Natural gas (US$/mcf)			
	Sales price	**7.47**	6.06	4.29
	Transportation	**0.31**	0.37	0.24
	Operating costs	**0.66**	0.82	0.48
		6.50	4.87	3.57
Scandinavia[3]	Oil and liquids (US$/bbl)			
	Sales price	**64.94**	56.41	38.36
	Transportation	**1.59**	0.93	0.46
	Operating costs	**19.86**	15.78	19.77
		43.49	39.70	18.13
	Natural gas (US$/mcf)			
	Sales price	**4.34**	3.57	4.35
	Transportation	**0.97**	1.21	2.11
		3.37	2.36	2.24
Southeast Asia[4]	Oil and liquids (US$/bbl)			
	Sales price	**65.84**	57.24	39.49
	Transportation	**0.42**	0.12	0.30
	Operating costs	**10.33**	6.18	7.32
		55.09	50.94	31.87
	Natural gas (US$/mcf)			
	Sales price	**6.13**	5.29	3.65
	Transportation	**0.46**	0.49	0.42
	Operating costs	**0.44**	0.35	0.27
		5.23	4.45	2.96
Other[5]	Oil (US$/bbl)			
	Sales price	**62.94**	54.10	39.48
	Transportation	**1.20**	1.17	2.20
	Operating costs	**6.37**	4.58	4.41
		55.37	48.35	32.87

Net of Royalties – US$		2006	2005	2004
Total Company	Oil and liquids (US$/bbl)			
	Sales price	**61.50**	52.07	36.57
	Hedging loss	**0.22**	0.82	4.90
	Transportation	**1.12**	0.83	0.79
	Operating costs	**14.77**	11.36	9.25
		45.39	39.06	21.63
	Natural gas (US$/mcf)			
	Sales price	**6.33**	6.89	4.84
	Hedging (gain) loss	**(0.19)**	–	0.07
	Transportation	**0.27**	0.28	0.25
	Operating costs	**0.94**	0.80	0.63
		5.31	5.81	3.89

Notes:

1 Pursuant to US reporting practice, netbacks are calculated using US$ and production after deduction of royalty volumes.

2 Unit operating costs include pipeline costs for the UK. Netbacks do not include synthetic oil.

3 Scandinavia for 2004 excludes Denmark.

4 Southeast Asia for 2004 includes Indonesia and Malaysia/Vietnam, but excludes Australia.

5 Other for 2004 includes Algeria, but excludes Trinidad and Tobago and Tunisia.

Supplemental Oil and Gas Information

The following information is provided in addition to the information required under US disclosure standards.

Continuity of Gross Proved Reserves[1]

	North America[2]	United Kingdom	Scandinavia[3]	Southeast Asia[4]	Other[5]	Total
Crude Oil and Liquids (mmbbls)						
Total proved						
Proved reserves at December 31, 2003[6]	190.2	242.3	14.1	84.4	48.2	**579.2**
Discoveries, additions and extensions	17.3	29.8	–	13.0	13.9	**74.0**
Purchase of reserves	0.2	34.1	–	1.3	–	**35.6**
Sale of reserves	(2.6)	(3.3)	–	–	–	**(5.9)**
Net revisions and transfers	(2.2)	27.5	(2.9)	3.4	(8.5)	**17.3**
2004 Production	(19.9)	(42.5)	(2.1)	(13.0)	(5.0)	**(82.5)**
Proved reserves at December 31, 2004[6]	183.0	287.9	9.1	89.1	48.6	**617.7**
Discoveries, additions, and extensions	12.6	41.9	2.0	12.7	8.5	**77.7**
Purchase of reserves	0.2	32.8	42.1	22.1	0.8	**98.0**
Sale of reserves	–	–	(0.9)	–	–	**(0.9)**
Net revisions and transfers	(2.8)	32.5	1.8	(1.3)	3.6	**33.8**
2005 Production	(19.6)	(39.1)	(9.3)	(12.9)	(9.3)	**(90.2)**
Proved Reserves at December 31, 2005[6]	173.4	356.0	44.8	109.7	52.2	**736.1**
Discoveries, additions and extensions	10.4	28.8	28.6	(0.9)	13.2	**80.1**
Purchase of reserves	–	26.2	–	–	–	**26.2**
Sale of reserves	(8.8)	(6.8)	–	–	–	**(15.6)**
Net revisions and transfers	9.8	14.1	0.3	8.3	1.4	**33.9**
2006 Production	(18.2)	(37.5)	(11.8)	(18.8)	(7.9)	**(94.2)**
Proved reserves at December 31, 2006[6]	166.6	380.8	61.9	98.3	58.9	**766.5**
Proved Developed						
December 31, 2003	186.4	209.2	3.8	29.5	25.5	**454.4**
December 31, 2004	171.0	249.3	4.7	39.9	38.9	**503.8**
December 31, 2005	161.0	277.4	34.9	67.7	34.7	**575.7**
December 31, 2006	156.4	255.7	25.7	70.2	43.3	**551.3**

	North America[2]	United Kingdom	Scandinavia[3]	Southeast Asia[4]	Other[5]	Total
Natural Gas (bcf)						
Total proved						
Proved reserves at December 31, 2003[6]	2,644.9	241.6	13.5	1,572.0	223.5	**4,695.5**
Discoveries, additions and extensions	478.5	8.0	–	765.3	–	**1,251.8**
Purchase of reserves	22.8	0.1	–	–	–	**22.9**
Sale of reserves	(72.7)	(0.5)	–	–	–	**(73.2)**
Net revisions and transfers	(113.2)	(30.0)	(3.2)	(58.7)	(7.0)	**(212.1)**
2004 Production	(324.9)	(40.3)	(1.3)	(95.2)	–	**(461.7)**
Proved reserves at December 31, 2004[6]	2,635.4	178.9	9.0	2,183.4	216.5	**5,223.2**
Discoveries, additions and extensions	361.0	23.7	0.3	129.1	–	**514.1**
Purchase of reserves	16.8	56.9	4.4	38.9	1.4	**118.4**
Sale of reserves	(1.2)	–	–	–	–	**(1.2)**
Net revisions and transfers	28.6	16.3	(2.2)	(3.4)	(1.3)	**38.0**
2005 Production	(333.8)	(35.2)	(3.3)	(103.6)	–	**(475.9)**
Proved reserves at December 31, 2005[6]	2,706.8	240.6	8.2	2,244.4	216.6	**5,416.6**
Discoveries, additions and extensions	457.8	34.6	65.9	(9.1)	14.9	**564.1**
Purchase of reserves	3.7	–	–	–	–	**3.7**
Sale of reserves	(44.2)	(20.5)	–	–	–	**(64.7)**
Net revisions and transfers	13.0	(32.7)	7.4	(20.0)	(1.5)	**(33.8)**
2006 Production	(332.0)	(39.2)	(5.2)	(106.5)	(0.1)	**(483.0)**
Proved reserves at December 31, 2006[6]	2,805.1	182.8	76.3	2,108.8	229.9	**5,402.9**
Proved Developed						
December 31, 2003	2,404.0	218.8	1.3	920.9	–	**3,545.0**
December 31, 2004	2,207.3	158.6	2.0	858.2	–	**3,226.1**
December 31, 2005	2,226.5	183.5	6.2	793.2	0.9	**3,210.3**
December 31, 2006	2,295.0	126.4	8.6	1,307.8	0.5	**3,738.3**

Notes:

1 For definitions of reserves, see the notes found on pages 33 and 34 of this Annual Information Form.

2 North American gross proved reserves exclude synthetic crude oil reserves: 2004 – 41.2 mmbbls; 2005 – 40.2 mmbbls; 2006 – 38.9 mmbbls.

3 Scandinavia for 2003 and 2004 includes Norway, but excludes Denmark.

4 Southeast Asia for 2003 and 2004 includes Indonesia and Malaysia/Vietnam, but excludes Australia.

5 Other for 2003 and 2004 includes Algeria and Trinidad and Tobago, but excludes Tunisia.

6 North America includes proved reserves in Canada of 190.2, 183.0, 173.4 and 166.6 mmbbls of crude oil and liquids as at December 31, 2003, 2004, 2005 and 2006, respectively, and 2,535.8, 2,482.3, 2,561.1 and 2,661.3 bcf of natural gas as at December 31, 2003, 2004, 2005 and 2006, respectively.

Product Netbacks (Gross)[1]

The following table provides information on product netbacks on a gross basis expressed in C$ on a quarterly basis for the periods indicated.

	2006					2005					2004
	Total	Three months ended				Total	Three months ended				Total
C$ Gross	Year	Dec 31	Sep 30	Jun 30	Mar 31	Year	Dec 31	Sep 30	Jun 30	Mar 31	Year
North America											
Oil and liquids ($/bbl)											
Sales price	56.73	50.90	63.29	63.34	49.58	52.62	54.84	60.92	48.16	46.50	42.11
Hedging loss	–	–	–	–	–	3.99	4.28	4.89	3.68	3.10	5.95
Royalties	11.91	10.20	13.29	13.56	10.60	10.79	10.69	12.83	9.77	9.87	8.59
Transportation	0.57	0.58	0.56	0.56	0.59	0.50	0.51	0.50	0.54	0.45	0.49
Operating costs	8.57	9.33	8.64	8.64	7.76	7.24	8.33	7.22	7.18	6.32	6.75
	35.68	30.79	40.80	40.58	30.63	30.10	31.03	35.48	26.99	26.76	20.33
Natural gas ($/mcf)											
Sales price	7.12	6.94	6.30	6.52	8.79	9.05	12.25	9.15	7.72	7.07	6.83
Hedging (gain) loss	(0.26)	(0.28)	(0.30)	(0.29)	(0.16)	–	–	–	–	–	0.10
Royalties	1.30	1.20	0.99	1.21	1.81	1.80	2.46	1.82	1.53	1.39	1.31
Transportation	0.19	0.17	0.18	0.18	0.23	0.19	0.23	0.19	0.18	0.17	0.20
Operating costs	1.07	1.05	1.06	1.16	1.02	0.90	0.95	0.96	0.88	0.79	0.79
	4.82	4.80	4.37	4.26	5.89	6.16	8.61	6.18	5.13	4.72	4.43
United Kingdom[2]											
Oil and liquids ($/bbl)											
Sales price	72.11	67.40	74.87	75.97	71.01	64.07	66.24	73.75	59.74	56.69	48.21
Hedging (gain) loss	0.52	0.12	0.95	0.95	0.21	(0.03)	(0.09)	–	–	–	7.74
Royalties	0.74	0.50	0.76	1.05	0.69	0.87	1.07	0.95	0.96	0.50	0.46
Transportation	1.52	1.58	1.65	1.52	1.38	1.21	1.26	1.16	1.14	1.24	1.17
Operating costs	19.83	21.38	21.08	22.01	15.86	16.67	16.38	17.58	18.11	14.93	12.64
	49.50	43.82	50.43	50.44	52.87	45.35	47.62	54.06	39.53	40.02	26.20
Natural gas ($/mcf)											
Sales price	8.50	7.52	7.53	8.61	10.11	7.30	8.76	6.25	6.37	7.14	5.57
Royalties	0.46	0.07	0.63	0.41	0.67	0.53	0.52	0.52	0.56	0.50	0.43
Transportation	0.33	0.37	0.34	0.24	0.36	0.42	0.40	0.37	0.49	0.41	0.28
Operating costs	0.71	0.84	0.59	0.63	0.78	0.91	1.11	0.77	0.73	0.93	0.57
	7.00	6.24	5.97	7.33	8.30	5.44	6.73	4.59	4.59	5.30	4.29
Scandinavia[2]											
Oil and liquids ($/bbl)											
Sales price	73.79	69.14	76.11	77.25	73.42	67.72	67.43	76.76	62.32	61.59	49.92
Royalties	0.33	0.24	0.48	0.31	0.32	0.05	0.14	–	–	–	–
Transportation	1.80	1.82	2.32	1.60	1.55	1.11	1.28	1.33	1.00	0.45	0.60
Operating costs	22.42	21.34	23.17	28.06	18.51	18.98	19.28	16.23	22.13	18.05	25.73
	49.24	45.74	50.14	47.28	53.04	47.58	46.73	59.20	39.19	43.09	23.59
Natural gas ($/mcf)											
Sales price	4.92	4.60	6.53	5.54	3.51	4.30	3.80	4.13	4.82	4.82	4.93
Transportation	1.10	1.14	1.52	(0.48)	2.04	1.48	0.43	1.59	2.30	2.33	2.39
	3.82	3.46	5.01	6.02	1.47	2.82	3.37	2.54	2.52	2.49	2.54

C$ Gross	2006 Total Year	2006 Three months ended Dec 31	Sep 30	Jun 30	Mar 31	2005 Total Year	2005 Three months ended Dec 31	Sep 30	Jun 30	Mar 31	2004 Total Year
Southeast Asia											
Oil and liquids ($/bbl)											
Sales price	**74.62**	**67.21**	**79.01**	**78.92**	**73.49**	68.79	68.30	76.86	67.60	60.35	51.29
Royalties	**32.36**	**25.02**	**33.41**	**40.90**	**29.97**	27.28	27.27	28.73	27.46	25.27	21.24
Transportation	**0.27**	**0.35**	**0.31**	**0.20**	**0.22**	0.09	(0.12)	0.27	0.25	0.08	0.23
Operating costs	**6.63**	**6.19**	**7.71**	**7.41**	**5.22**	4.48	5.04	4.14	4.34	4.08	5.57
	35.36	**35.65**	**37.58**	**30.41**	**38.08**	36.94	36.11	43.72	35.55	30.92	24.25
Natural gas ($/mcf)											
Sales price	**6.95**	**5.75**	**7.37**	**7.57**	**7.08**	6.40	6.72	6.98	6.36	5.44	4.74
Royalties	**1.86**	**1.30**	**1.84**	**2.17**	**2.12**	1.95	1.98	2.14	1.88	1.75	1.19
Transportation	**0.38**	**0.35**	**0.43**	**0.37**	**0.38**	0.41	0.43	0.42	0.24	0.55	0.41
Operating costs	**0.36**	**0.43**	**0.36**	**0.31**	**0.34**	0.30	0.30	0.29	0.31	0.28	0.27
	4.35	**3.67**	**4.74**	**4.72**	**4.24**	3.74	4.01	4.13	3.93	2.86	2.87
Other[3]											
Oil ($/bbl)											
Sales price	**71.65**	**66.78**	**72.46**	**78.60**	**70.43**	65.40	66.26	71.94	62.72	59.81	51.17
Royalties	**22.41**	**23.93**	**23.58**	**23.03**	**20.08**	19.41	19.05	20.88	19.31	18.18	19.65
Transportation	**0.94**	**1.09**	**0.86**	**0.84**	**0.93**	1.00	0.96	0.97	0.99	1.08	1.76
Operating costs	**4.99**	**7.44**	**4.32**	**5.35**	**3.44**	3.89	3.97	3.68	3.08	5.07	3.51
	43.31	**34.32**	**43.70**	**49.38**	**45.98**	41.10	42.28	46.41	39.34	35.48	26.25
Total Company											
Oil and liquids ($/bbl)											
Sales price	**69.82**	**64.48**	**73.27**	**74.39**	**67.85**	62.78	64.62	71.51	58.58	55.40	47.45
Hedging loss	**0.21**	**0.05**	**0.36**	**0.37**	**0.09**	0.85	0.77	1.08	0.86	0.72	5.42
Royalties	**10.97**	**9.18**	**12.17**	**13.57**	**9.39**	8.64	8.81	9.89	8.32	7.41	6.84
Transportation	**1.07**	**1.14**	**1.15**	**1.01**	**1.01**	0.86	0.86	0.88	0.86	0.84	0.88
Operating costs	**14.11**	**14.91**	**14.49**	**15.74**	**11.71**	11.81	12.25	11.60	12.49	10.85	10.32
	43.46	**39.20**	**45.10**	**43.70**	**45.65**	40.62	41.93	48.06	36.05	35.58	23.99
Natural gas ($/mcf)											
Sales price	**7.20**	**6.72**	**6.65**	**6.94**	**8.52**	8.30	10.63	8.43	7.31	6.73	6.28
Hedging (gain) loss	**(0.17)**	**(0.19)**	**(0.20)**	**(0.19)**	**(0.10)**	–	–	–	–	–	0.07
Royalties	**1.33**	**1.11**	**1.13**	**1.36**	**1.73**	1.71	2.14	1.79	1.53	1.37	1.21
Transportation	**0.25**	**0.24**	**0.26**	**0.22**	**0.30**	0.27	0.29	0.26	0.22	0.28	0.26
Operating costs	**0.87**	**0.89**	**0.86**	**0.90**	**0.84**	0.76	0.82	0.79	0.74	0.69	0.66
	4.92	**4.67**	**4.60**	**4.65**	**5.75**	5.56	7.38	5.59	4.82	4.39	4.08

Notes:

1 Unit operating costs include pipeline costs for the UK. Netbacks do not include synthetic oil.

2 In 2004 and 2005, the UK and Scandinavia were reported in aggregate.

3 North Africa, Trinidad and Tobago as well as other international areas have been reclassified as Other.

Additional Information

Future commitments to buy, sell, exchange, process and transport oil or gas of the Company are described under note 12 entitled "Contingencies and Commitments" in the audited consolidated financial statements of the Company for the year ended December 31, 2006, which information is incorporated herein by reference.

Competitive Conditions

The oil and gas industry, both within North America and internationally, is highly competitive in all aspects of the business. The Company actively competes for the acquisition of properties, the exploration for and development of new sources of supply, the contractual services for oil and gas drilling and production equipment and services, the transportation and marketing of current production and industry personnel. With respect to the exploration, development and marketing of oil and natural gas, the Company's competitors include major integrated oil and gas companies, numerous other independent oil and gas companies, individual producers and operators and national oil companies. A number of the Company's competitors have financial and other resources substantially in excess of those available to the Company. In addition, oil and gas producers in general compete indirectly against others engaged in supplying alternative forms of energy, fuel and related products to consumers.

Social Responsibility and Environmental Protection

Social Policies

Talisman has formal policies and procedures that support the Company's commitment to corporate responsibility. Talisman's Policy on Business Conduct and Ethics (the "Ethics Policy"), a statement of the Company's ethical principles, is the foundation of the Company's corporate responsibility framework. Every employee of Talisman is required to read the Ethics Policy and understand how it relates to his or her business dealings as a condition of employment. In addition, each employee is required to complete at least annually a declaration confirming his or her compliance with the Ethics Policy or disclosing any deviations therefrom, which declarations are reviewed by the Chief Executive Officer and reported to the Board of Directors. In 2005, all permanent Talisman employees were required to complete ethics training.

In 2004, Talisman adopted a security policy (the "Security Policy"). Both the Ethics Policy and the Security Policy incorporate the Voluntary Principles on Security and Human Rights.

Health, Safety and Environmental Protection

Talisman's corporate health, safety and environment ("HSE") policy commits to three fundamental principles: providing safe and healthy operations, continuous improvement of the Company's environmental performance and respecting the interests of neighbours and other stakeholders. Talisman maintains an integrated HSE management framework and processes to achieve its HSE objectives in a structured way. Internal guidance documents (standards and plans), programs, activities and service arrangements support the implementation of these management processes. Talisman's regional operations are empowered to organize their HSE programs and systems in ways that are locally meaningful and that address their unique risks and priorities. Talisman audits, both internally and externally, its operations periodically to support continuous improvement and demonstrate compliance. The Company also conducts environmental due diligence on applicable asset and corporate acquisitions to identify and properly account for pre-existing environmental liabilities.

The oil and gas industry is subject to safety and environmental regulation pursuant to extensive legislation, enacted by various levels of government, both in Canada and internationally. The Company maintains a comprehensive range of internal programs and controls to promote regulatory compliance and an appropriate level of safety and environmental protection across its operations. Public expectation regarding the industry's safety and environmental performance remains high and this continues to translate into new and generally more rigorous policies, legislation and regulations. Within jurisdictions and sectors, these regulatory instruments apply generally and do not typically influence competitive position.

The Company does not anticipate making extraordinary material expenditures for environmental compliance during 2007. However, it does expect to incur site restoration costs over a prolonged period as existing fields become fully produced. Talisman provides for future abandonment and reclamation costs in its financial statements in accordance with Canadian generally accepted accounting principles. Additional information regarding future abandonment and reclamation costs is set forth under note 12 entitled "Contingencies and Commitments" in the audited consolidated financial statements of the Company for the year ended December 31, 2006, which information is incorporated herein by reference.

More information about Talisman's social and environmental policies and its corporate responsibility performance is available on the Company's corporate website at www.talisman-energy.com. The information available on the website includes the Ethics Policy, Security Policy, Talisman's annual Corporate Responsibility Report and HSE management framework.

Employees

At December 31, 2006, Talisman's permanent staff complement[1] was 2,388, as set forth in the table below.

	Permanent Staff Complement[1] as at December 31, 2006
North America	1,679
United Kingdom	311
Scandinavia	148
Southeast Asia	243
Other[2]	7
Total	**2,388**

Notes:

1 Contractors and temporary staff are not included in complement numbers.

2 "Other" includes Trinidad and Tobago, and Qatar.

Description of Capital Structure

Share Capital

The Company's authorized share capital consists of an unlimited number of Common Shares without nominal or par value and an unlimited number of first and second preferred shares. All of the Common Shares are fully paid and non-assessable. As at the date of this Annual Information Form, no preferred shares are outstanding.

Holders of Common Shares are entitled to receive notice of and to attend all annual and special meetings of shareholders. Each Common Share carries with it the right to one vote. Subject to the rights of holders of other classes of shares of the Company who are entitled to receive dividends in priority to or rateable with the Common Shares, the Board of Directors may, in its sole discretion, declare dividends on the Common Shares to the exclusion of any other class of shares of the Company. In the event of liquidation, dissolution or winding up of the Company or any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, and subject to the rights of other classes of shares on a priority basis, the holders of Common Shares are entitled to participate rateably in any distribution of any assets of the Company.

The first preferred shares are issuable in one or more series, each series consisting of the number of shares and having the designation, rights, privileges, restrictions and conditions as are determined before issue by the Board of Directors of the Company. Each series of first preferred shares would rank on a parity with the first preferred shares of every other series with respect to declared or accumulated dividends and return of capital. In addition, the first preferred shares are entitled to a preference over the second preferred shares and the Common Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of liquidation, dissolution or winding up of the Company. The first preferred shares are not, except as required by law and as may be determined by the Board of Directors prior to the issuance of a series, entitled to notice of, or to vote at meetings of shareholders.

The second preferred shares are issuable in one or more series, each series consisting of the number of shares and having the designation, rights, privileges, restrictions and conditions as are determined before issue by the Board of Directors of the Company. Each series of second preferred shares would rank on a parity with the second preferred shares of every other series with respect to declared or accumulated dividends and return of capital. In addition, the second preferred shares are entitled to a preference over the Common Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of liquidation, dissolution or winding-up of the Company. The second preferred shares are not, except as required by law and may be determined by the Board of Directors prior to the issuance of a series, entitled to notice of, or to vote at meetings of shareholders.

Ratings

The following table outlines the ratings assigned to the Company by credit rating agencies as of December 31, 2006.

	Standard & Poor's Rating Services ("S&P")	Moody's Investors Service ("Moody's")	Dominion Bond Rating Service ("DBRS")
Senior Unsecured/Long-Term Rating	BBB+	Baa2	BBB (High)
Outlook	Negative[1]	Stable	Stable

Note:

1 S&P's negative outlook applies to Talisman's corporate rating only.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities and are indicators of the likelihood of payment and of the capacity of a company to meet its financial commitment on the rated obligation in accordance with the terms of the rated obligation.

The credit ratings assigned to the Company's senior unsecured long-term debt securities are not recommendations to purchase, hold or sell the debt securities and may be revised or withdrawn entirely at any time by a rating agency. Credit ratings may not reflect the potential impact of all risks or the value of the debt securities. In addition, real or anticipated changes in the rating assigned to the debt securities will generally affect the market value of the debt securities. There can be no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Moody's credit ratings are on a long-term debt rating scale that ranges from Aaa to C, representing the range from least credit risk to greatest credit risk of such securities rated. Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through Caa in its long-term debt rating system. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the issue ranks in the lower end of that generic rating category. According to the Moody's rating system, debt securities rated Baa are subject to moderate credit risk. They are considered medium-grade and, as such, may possess certain speculative characteristics.

S&P's credit ratings are on a long-term debt rating scale that ranges from AAA to D, representing the range from highest to lowest quality of such securities rated. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. According to S&P's rating system, debt securities rated BBB exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments on the obligations. A negative rating outlook means that a rating may be lowered.

DBRS' credit ratings are on a long-term debt rating scale that ranges from AAA to D, representing the range from highest to lowest quality of such securities rated. Each rating category between AA and B is denoted by subcategories "high" and "low." The absence of either a "high" or "low" designation indicates that the rating is in the "middle" of the category. According to DBRS' rating system, long-term debt securities rated BBB are of adequate credit quality. Protection of interest and principal is considered acceptable, but entities so rated are fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present, which reduce the strength of such entity and its rated securities.

Market for the Securities of the Company

The Common Shares of the Company are listed on the Toronto Stock Exchange ("TSX") and New York Stock Exchange under the trading symbol TLM. The Company's £250 million 6.625% Notes are listed on the London Stock Exchange.

Trading Price and Volume

The following sets out the high and low prices and the volume of trading for the Company's Common Shares (as traded on the TSX) for the periods indicated.

Year	Month	High[1]	Low[1]	Volume[1]
2006	January	24.84	20.24	113,588,682
	February	23.42	19.38	97,086,951
	March	21.86	19.42	94,185,303
	April	23.10	20.27	76,461,822
	May	21.91	18.11	118,269,893
	June	20.70	16.52	96,633,119
	July	20.28	17.18	89,339,288
	August	20.92	18.56	99,991,557
	September	20.52	17.20	111,411,202
	October	19.69	16.12	98,567,652
	November	19.27	17.58	111,086,937
	December	20.59	18.82	81,015,601

Note:

1 On May 9, 2006, Talisman subdivided it's Common Shares on a three-for-one basis and the Company's Common Shares began trading on a post-split basis on May 23, 2006. Trading prices and volumes from January 1, 2006 to May 23, 2006 have been adjusted to reflect this share split.

Dividends

In 2006, the Company paid semi-annual dividends on Talisman's Common Shares totaling $0.15 per share. The dividends were paid on June 30 and December 29, 2006. Talisman's dividend policy is subject to review semi-annually by the Board of Directors.

Talisman confirms that all dividends paid to shareholders in 2006 are "eligible dividends" pursuant to recently enacted provisions of the *Income Tax Act* (Canada). Furthermore, all dividends to be paid in 2007 and subsequent years will be eligible dividends for such purposes.

Talisman paid the following semi-annual dividends on its Common Shares over the last three years:

Date	Rate Per Common Share[1]
June 30, 2004	$0.050
December 31, 2004	$0.050
June 30, 2005	$0.057
December 30, 2005	$0.057
June 30, 2006	$0.075
December 29, 2006	$0.075

1 On May 9, 2006 Talisman subdivided its Common Shares on a three-for-one basis. The dividend rate per Common Share prior to this date has been adjusted to reflect this share split.

Prior Sales of Debt Securities

During the year ended December 31, 2006, the Company issued the following securities, which are not listed or quoted on a marketplace:

Description of Security	Sale Price	Due Date
US$500 million principal amount of 5.85% notes	US$99.418 per US$100 principal amount of securities	February 1, 2037
C$350 million principal amount of 4.44% medium term notes	C$99.991 per C$100 principal amount of securities	January 27, 2011
US$600 million principal amount of 6.25% notes	US$98.341 per US$100 principal amount of securities	February 1, 2038

Directors and Officers

Information is given below with respect to each of the current directors and officers of the Company. The term of office of each director expires at the end of the 2007 annual meeting.

Directors

The directors of the Company are elected annually. The following table sets out the name, city, province or state and country of residence, year first elected or appointed to the Board, principal occupation within the past five years or more, educational qualifications and other current directorships of each of the directors of the Company.

Name, City, Province or State and Country of Residence	Year First Became Director of the Company	Present Principal Occupation or Employment (including all officer positions currently held with the Company), Principal Occupation or Employment for the Past Five Years or More, Educational Qualifications, Other Current Public Company Directorships and Directorships in Non-Public Companies, Organizations or other Entities that Require a Significant Time Commitment
Douglas D. Baldwin[2,3,4,6] Calgary, Alberta, Canada Age: 70[9]	2001	Douglas Baldwin is the Chairman of the Board of the Company. Mr. Baldwin was the President and Chief Executive Officer of TransCanada PipeLines Limited (pipeline and power company) from 1999 to 2001, Senior Vice-President and a Director of Imperial Oil Limited (natural resource company) from 1992 to 1998 and President and Chief Executive Officer of Esso Resources Canada Limited (natural resource company) from 1988 to 1992. Mr. Baldwin holds a Bachelor of Science degree in Chemical Engineering and was awarded an Honorary Doctor of Laws degree from the University of Calgary in 1999 and an Honorary Doctor of Laws degree from the University of Saskatchewan in 2003. Current public company directorships[7]: UTS Energy Corporation and Citadel Group of Funds. Other current directorships[8]: None.
James W. Buckee[2,5] Calgary, Alberta, Canada Age: 60[9]	1992	James Buckee is the President and Chief Executive Officer of the Company. Dr. Buckee was the President and Chief Operating Officer of the Company (formerly BP Canada Inc.) prior to 1993 and Manager, Planning of BP Exploration Company Ltd. (natural resource company) prior to 1991. Dr. Buckee holds a Bachelor of Science degree (Honors) in Physics and a Doctorate in Astrophysics and was awarded an Honorary Doctor of Business Administration degree from The Robert Gordon University in 2006. Current public company directorships[7]: None. Other current directorships[8]: None
William R.P. Dalton[1,5] Scottsdale, Arizona, United States Age: 63[9]	2005	William Dalton was Chief Executive of HSBC Bank plc (a British Clearing Bank) from 1998 to 2004, Executive Director of HSBC Holdings plc from 1998 to 2004, Global Head of Personal Financial Services for HSBC Group from 2002 to 2004 and held various positions in the Canadian operations of HSBC prior to 1998. Mr. Dalton holds a Bachelor of Commerce degree (Honors) and was awarded an Honorary Doctorate (Honorary Doctor of the University) by the University of Central England in Birmingham in 2001. Mr. Dalton is a Fellow of the Chartered Institute of Bankers of the UK and the Institute of Canadian Bankers. Current public company directorships[7]: First Choice Holidays plc Other current directorships[8]: HSBC Finance Inc., Associated Electric and Gas Insurance Services (AEGIS), AEGIS Managing Agency for Lloyds of London Syndicate 1225 and Swiss RE GB plc.

Name, City, Province or State and Country of Residence	Year First Became Director of the Company	Present Principal Occupation or Employment (including all officer positions currently held with the Company), Principal Occupation or Employment for the Past Five Years or More, Educational Qualifications, Other Current Public Company Directorships and Directorships in Non-Public Companies, Organizations or other Entities that Require a Significant Time Commitment
Kevin S. Dunne[3,5,6] Tortola, British Virgin Islands Age: 58[9]	2003	Kevin Dunne has held various international senior and executive management positions with BP plc (international integrated oil and gas company) including General Manager of Abu Dhabi Company for Onshore Oil Operations (ADCO), a BP joint venture, from 1994 to 2001, Corporate Associate President of BP Indonesia from 1991 to 1994 and Corporate Head of Strategy for the BP Group based in London from 1990 to 1991. Mr. Dunne holds a Bachelor's degree in Chemical Engineering and a Master's degree in Management Science. Mr. Dunne is a Fellow of the Institution of Chemical Engineers and a Chartered Engineer. Current public company directorships[7]: None. Other current directorships[8]: None.
Lawrence G. Tapp[1,4] Langley, British Columbia, Canada Age: 69[9]	2001	Lawrence Tapp is the Chairman of ATS Automation Tooling Systems Inc. (industrial automation company), Softchoice Corporation, Comcare Health Services and Mainstreet Equity Corporation. Mr. Tapp was the Dean of the Richard Ivey School of Business of the University of Western Ontario from 1995 to 2003, Executive in Residence of the Faculty of Management and Adjunct Professor of the University of Toronto from 1992 to 1995 and Vice Chairman, President and Chief Executive Officer of Lawson Mardon Group Limited (packaging conglomerate) from 1985 to 1992. Mr. Tapp holds a Bachelor of Arts degree and an Executive Master of Business Administration degree. Current public company directorships[7]: ATS Automation Tooling Systems Inc., Softchoice Corporation, CCL Industries Inc. and Mainstreet Equity Corporation. Other current directorships[8]: Nature Conservancy of Canada and Comcare Health Services.
Stella M. Thompson[2,4,5] Calgary, Alberta, Canada Age: 62[9]	1995	Stella Thompson is a Principal of Governance West Inc. (corporate governance consulting company) and President of Stellar Energy Ltd. (energy and management consulting company). Ms. Thompson was Vice-President, Planning, Business Information & Systems of Petro-Canada Products (petroleum refining and marketing company) prior to June 1991. Ms. Thompson holds a Bachelor of Arts degree in Economics and a Master of Arts degree in Economics and has been awarded the ICD.D designation by the Institute of Corporate Directors. Current public company directorships[7]: None. Other current directorships[8]: Atomic Energy of Canada Ltd., Alberta's Electricity Balancing Pool, Calgary Airport Authority and Genome Alberta (Vice Chair).

Name, City, Province or State and Country of Residence	Year First Became Director of the Company	Present Principal Occupation or Employment (including all officer positions currently held with the Company), Principal Occupation or Employment for the Past Five Years or More, Educational Qualifications, Other Current Public Company Directorships and Directorships in Non-Public Companies, Organizations or other Entities that Require a Significant Time Commitment
Robert G. Welty[1,3] Calgary, Alberta, Canada Age: 67[9]	2003	Robert Welty is the Chairman and a Director of Sterling Resources Ltd. ("Sterling") (oil and gas exploration and development company). Mr. Welty was the Chief Executive Officer of Sterling from 1998 to 2005, President of Escondido Resources (International) Ltd. (oil and gas exploration company) from 1996 to 1997, President and Chief Executive Officer of Canadian Fracmaster Ltd. (oil field service company) from 1994 to 1995, President and Chief Executive Officer of Bow Valley Energy Inc. (oil and gas exploration and development company) from 1992 to 1994 and President and Chief Executive Officer of Asamera Inc. (oil and gas exploration and development company) from 1976 to 1988. Mr. Welty holds a Bachelor of Arts degree (Honors) in Economics and is a Chartered Accountant. Current public company directorships[7]: Sterling Resources Ltd. Other current directorships[8]: None.
Charles R. Williamson[3,4] Sonoma, California, United States Age: 58[9]	2006	Charles Williamson was the Executive Vice-President of Chevron Corporation (integrated oil and gas company) from August to December 2005, Chairman and Chief Executive Officer of Unocal Corporation ("Unocal") (oil and gas exploration and development company) from 2001 to 2005 and held various executive positions within Unocal, including Executive Vice President, International Energy Operations and Group Vice President, Asia Operations prior to 2001. Dr. Williamson holds a Bachelor of Science degree in Geology, a Master of Science degree in Geology and a Doctorate in Geology. Current public company directorships[7]: Weyerhaeuser Inc. and PACCAR Inc. Other current directorships[8]: None.
Charles W. Wilson[1,2,6] Evergreen, Colorado, United States Age: 67[9]	2002	Charles Wilson was the President and Chief Executive Officer of Shell Canada (integrated oil and gas company) from 1993 to 1999, Executive Vice President US Downstream Oil and Chemical of Shell Oil Company (integrated oil and gas company) from 1988 to 1993, Vice President US Refining and Marketing of Shell Oil Company and has held various positions in the domestic and international natural resource operations of Shell prior to 1988. Mr. Wilson holds a Bachelor of Science degree in Civil Engineering and a Master of Science degree in Engineering. Current public company directorships[7]: ATCO Ltd., Akita Drilling Ltd., Big Rock Brewery Income Trust and Canadian Utilities Limited. Other current directorships[8]: None.

1 Member of the Audit Committee.
2 Member of the Executive Committee.
3 Member of the Governance and Nominating Committee.
4 Member of the Management Succession and Compensation Committee.
5 Member of the Pension Funds Committee.
6 Member of the Reserves Committee.
7 Refers only to issuers that are reporting issuers or the equivalent in a foreign jurisdiction.
8 Refers to directorships of non-public companies, organizations or other entities that require a significant time commitment from the nominee listed.
9 Ages are calculated as at March 1, 2007.

Officers

The following table sets out the name, city, province and country of residence and office held with Talisman of each of the executive officers and assistant corporate secretaries of the Company.

Name and Province or State and Country of Residence	Office
James W. Buckee Calgary, Alberta, Canada	President and Chief Executive Officer
A. Paul Blakeley Calgary, Alberta, Canada	Executive Vice-President, International Operations (East)
Philip D. Dolan Calgary, Alberta, Canada	Vice-President, Finance and Chief Financial Officer
Ronald J. Eckhardt Calgary, Alberta, Canada	Executive Vice-President, North American Operations
T. Nigel D. Hares Calgary, Alberta, Canada	Executive Vice-President, International Operations (West)
Robert M. Redgate Calgary, Alberta, Canada	Executive Vice-President, Corporate Services
M. Jacqueline Sheppard Calgary, Alberta, Canada	Executive Vice-President, Corporate and Legal, and Corporate Secretary
John 't Hart Calgary, Alberta, Canada	Executive Vice-President, Exploration
C. Tamiko Ohta Calgary, Alberta, Canada	Assistant Corporate Secretary
Christine D. Lee Calgary, Alberta, Canada	Assistant Corporate Secretary
Leslie A. Lawson Calgary, Alberta, Canada	Assistant Corporate Secretary

In early 2003, the Company changed the titles of all its then existing vice-presidents to better reflect the roles and responsibilities of their continuing offices. Mr. Paul Blakeley has held his current position since September 1, 2006. Prior to that, he served as Vice-President, Southeast Asia since January 1, 2006, and prior to that he served as Vice-President, UK, and prior to that he served as General Manager, UK. Mr. Philip D. Dolan has held his current position since December 1, 2006. Prior to that, he held the position of Controller of the Company since April 16, 1996. Dr. John 't Hart has held his current position since June 25, 2003. Prior to that, he served as Senior Manager, International Exploration of the Company since April 1, 2003, and prior to that he served as Manager, International Exploration of the Company. Mr. Ronald Eckhardt has held his current position since October 1, 2003. Prior to that, he served as Vice-President, Southern District of North American Operations of the Company since January 23, 2003, and prior to that he served as Senior Manager, Western Operations, and prior to that he served as Manager, Eastern Operations of the Company. All of the other executive officers of the Company have held their offices for at least five years.

In 2003, Stella M. Thompson, a director of the Company, was a director of Laidlaw Inc., a public holding company, when it obtained an order in the United States Bankruptcy Court for the Western District of New York confirming its plan of reorganization and an order from the Ontario Superior Court of Justice under the *Companies' Creditors Arrangement Act* (Canada) recognizing and implementing the plan in Canada.

Shareholdings of Directors and Executive Officers

As of March 1, 2007, the directors and executive officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 1,131,853 Common Shares of the Company, representing 0.11% of the issued and outstanding Common Shares of the Company.

Conflicts of Interest

Certain directors of the Company and its subsidiaries are associated with other reporting issuers or other corporations, which may give rise to conflicts of interest. In accordance with the *Canada Business Corporations Act,* directors and officers of the Company are required to disclose to the Company the nature and extent of any interest that they have in a material contract or material transaction, whether made or proposed, with the Company, if the director or officer is: (a) a party to the contract or transaction; (b) is a director or an officer, or an individual acting in a similar capacity, of a party to the contract or transaction; or (c) has a material interest in a party to the contract or transaction.

As described in "Social Responsibility and Environmental Protection", Talisman has adopted the Ethics Policy, which applies to all directors, officers and employees of Talisman and its subsidiaries. As required by the Ethics Policy, individuals representing Talisman must not enter into outside activities, including business interests or other employment, that might interfere with or be perceived to interfere with their performance at Talisman. In addition, Talisman officers and employees are required to abide by an internal Conflict of Interest in Employment Policy.

Audit Committee Information

Information concerning the Audit Committee of the Company, as required by Multilateral Instrument 52-110, is provided in Schedule C to this Annual Information Form.

Legal Proceedings

From time to time, Talisman is the subject of litigation arising out of the Company's operations. Damages claimed under such litigation, including the litigation discussed below may be material or may be indeterminate and the outcome of such litigation may materially impact the Company's financial condition or results of operations. While Talisman assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defend itself against such litigation. These claims are not currently expected to have a material impact on the Company's financial position.

On September 12, 2006, the United States District Court for the Southern District of New York (the "Court") granted Talisman's Motion for Summary Judgment, dismissing the lawsuit brought against Talisman by the Presbyterian Church of Sudan and others under the *Alien Tort Claims Act*. The lawsuit alleged that the Company conspired with, or aided and abetted, the Government of Sudan to commit violations of international law in connection with the Company's now disposed of interest in oil operations in Sudan. The Plaintiffs have twice attempted to certify the lawsuit as a class action. In March 2005 and in September 2005, the Court rejected the Plaintiffs' effort to certify two different classes (or groups) of Plaintiffs. On July 19, 2006, the Second Circuit Court of Appeals denied the Plaintiffs' request to appeal the Court's refusal to certify the lawsuit as a class action. The Plaintiffs have appealed the Court's decision granting Talisman's Motion for Summary Judgment and all prior rulings to the Second Circuit Court of Appeals. Talisman believes the lawsuit is entirely without merit and will continue to vigorously defend itself. Talisman does not expect the lawsuit to have a material adverse effect on it.

Risk Factors

Talisman is exposed to a number of risks inherent in exploring for, developing and producing crude oil and natural gas. This section describes the risks and other matters that would be most likely to influence an investor's decision to purchase securities of Talisman.

Ability to Find, Develop or Acquire Additional Reserves

The Company's future success depends largely on its ability to find, develop or acquire additional oil and gas reserves that are economically recoverable. Exploration and development drilling may not result in commercially productive reserves. Successful acquisitions require an assessment of a number of factors, many of which are uncertain. These factors include recoverable reserves, exploration potential, future oil and gas prices, operating costs and potential environmental and other liabilities. Such assessments are inexact and their accuracy is inherently uncertain.

Operational Hazards and Responsibilities

Oil and gas drilling and producing operations are subject to many risks including the possibility of fire, explosions, mechanical failure, pipe failure, chemical spills, accidental flows of oil, natural gas or well fluids, sour gas releases, storms or other adverse weather conditions and other occurrences or accidents, which could result in personal injury or loss of life, damage or destruction of properties, environmental damage, interruption of business, regulatory investigations and penalties and liability to third parties. The Company has developed a comprehensive HSE management framework to mitigate physical risks. The Company also mitigates insurable risks to protect against significant losses by maintaining a comprehensive insurance program, while maintaining levels and amounts of risk within the Company which management believes to be acceptable. Talisman believes its liability, property and business interruption insurance is appropriate to its business and consistent with common industry practice, although such insurance will not provide coverage in all circumstances.

Project Completion Risks

Talisman manages a variety of projects including exploration and development projects and the construction or expansion of facilities and pipelines. Project delays may delay expected revenues and project cost overruns could make projects uneconomic. Talisman's ability to complete projects depends upon numerous factors beyond the Company's control. These factors include: the availability of processing capacity; the availability and proximity of pipeline capacity; the availability of drilling and other equipment; the ability to access lands; weather; unexpected cost increases; accidents; the availability of skilled labour, including engineering and project planning personnel; and regulatory matters. The significant rate of inflation in the cost of materials and services over the last two years has become a major factor affecting project economics and project planning.

Uncertainty of Reserves Estimates

The process of estimating oil and gas reserves is complex and involves a significant number of decisions and assumptions in evaluating available geological, geophysical, engineering and economic data; therefore, reserves estimates are inherently uncertain. Talisman prepares all of its reserves information internally. The Company may adjust estimates of proved reserves based on production history, results of exploration and development drilling, prevailing oil and gas prices and other factors, many of which are beyond the Company's control. In addition, there are numerous uncertainties in forecasting the amounts and timing of future production, costs, expenses and the results of exploration and development projects. All estimates are, to some degree, uncertain and classifications of reserves are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, the classification of such reserves based on risk of recovery and the standardized measure of discounted future net cash flows, prepared by different engineers or by the same engineers at different times, may vary substantially. Talisman's actual production, taxes and development and operating expenditures with respect to its reserves will likely vary from such estimates and such variances could be material.

Estimates with respect to reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reservoirs, rather than upon actual production history. Estimates based on these methods generally are less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be material, in the estimated reserves.

Political Risks

The Company's operations may be adversely affected by changes in governmental policies and legislation or social instability or other political or economic developments, which are not within the control of Talisman including, among other things, a change in crude oil or natural gas pricing policy, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation

policies, economic sanctions, the imposition of specific drilling obligations, the development and abandonment of fields, fluctuating exchange rates and currency controls. With recent record commodity prices, there is a corresponding reemergence of nationalization or expropriation in increased taxation risk in many countries. In addition, both Indonesia and Algeria are members of the Organization of Petroleum Exporting Countries ("OPEC"). Talisman's operations in these countries may therefore be impacted by the application of OPEC quotas. Various countries in which the Company is active, including Indonesia, Algeria, Colombia and Peru have been subject to recent economic or political instability and social unrest, military or rebel hostilities. In addition, Talisman regularly evaluates opportunities worldwide, and may in the future engage in projects or acquire properties in other nations that are experiencing economic or political instability and social unrest or military hostilities or are subject to United Nations or US sanctions. Some of the foregoing government actions may lead to political or reputational pressures on the Company from non-governmental organizations, home governments and investors.

Volatility of Oil and Natural Gas Prices

Talisman's financial performance is highly sensitive to prevailing prices of crude oil and natural gas. Fluctuations in crude oil or natural gas prices could have a material adverse effect on the Company's operations and financial condition, the value of its oil and natural gas reserves and its level of spending for oil and gas exploration and development. Prices for crude oil and natural gas fluctuate in response to changes in the supply of and demand for crude oil and natural gas, market uncertainty and a variety of additional factors that are largely beyond the Company's control. Oil prices are determined by international supply and demand. Factors which affect crude oil prices include the actions of OPEC, world economic conditions, government regulation, political stability in the Middle East and elsewhere, the availability of alternative fuel sources and weather conditions. Most natural gas prices realized by Talisman are affected primarily by North American supply and demand, weather conditions and by prices of alternative sources of energy. The development of oil and natural gas discoveries in offshore areas is particularly dependent on the outlook for oil and natural gas prices because of the large amount of capital expenditure required for development prior to commencing production.

A substantial and extended decline in the prices of crude oil or natural gas could result in delay or cancellation of drilling, development or construction programs, or curtailment in production or result in unutilized long-term transportation commitments, all of which could have a material adverse impact on the Company. The amount of cost oil required to recover Talisman's investment and costs in various production sharing contracts is dependent on commodity prices, with higher commodity prices resulting in a lower amount of net after royalty oil and gas reserves booked by the Company.

Litigation

From time to time, Talisman is the subject of litigation arising out of the Company's operations. Specific disclosure of current legal proceedings, and the risks associated with current proceedings and litigation generally, are disclosed under the heading "Legal Proceedings" in this Annual Information Form.

Environmental Risks

All phases of the oil and natural gas business are subject to environmental regulation pursuant to a variety of laws and regulations in the countries in which Talisman does business. These regulatory regimes are laws of general application that apply to the Company's business in the same manner as they apply to other companies or enterprises in the energy industry. Environmental legislation imposes, among other things, restrictions, liabilities and obligations in connection with the generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances to the environment. Environmental legislation also requires that pipelines, wells, facility sites and other properties associated with Talisman's operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Certain types of operations, including exploration and development projects, may require the submission and approval of environmental impact assessments or permit applications. In some cases, exploration and development activities may be precluded or restricted due to designation of areas as environmentally sensitive areas. Compliance with environmental legislation can require significant expenditures and failure to comply with environmental legislation may result in the imposition of fines and penalties and liability for clean up costs and damages. Additionally, the Company's business is subject to the trend toward increased civil liability for environmental matters. Although Talisman currently believes that the costs of complying with environmental legislation and dealing with environmental civil liabilities will not have a material adverse effect on the Company's financial condition or results of operations, there can be no assurance that such costs in the future will not have such an effect. Talisman expects to incur site restoration costs over a prolonged period as existing fields are depleted. The Company provides for future abandonment and reclamation costs in its annual consolidated financial statements in accordance with Canadian GAAP. Additional information regarding future abandonment and reclamation costs is set forth in the notes to the annual consolidated financial statements.

In 1994, the United Nations' Framework Convention on Climate Change came into force and three years later led to the Kyoto Protocol (the "Protocol"). The Protocol came into force on February 16, 2005 and requires certain nations to reduce their emissions of carbon dioxide and other greenhouse gases. Under the terms of the Protocol, Canada will be required to reduce its greenhouse gas ("GHG") emissions to 6% below 1990 levels over the period beginning in 2008 and ending in 2012. Currently, Canadian oil and gas producers are in discussions with the provincial and federal levels of government regarding implementation mechanisms for the industry. It is premature to predict what impact the Protocol could

have on Canadian oil and gas producers (and specifically, if and in what manner it will be implemented) but it is likely that any mandated reduction in GHG emissions will result in increased costs.

The UK has also ratified the Protocol, with a reduction commitment of 12.5% below 1990 levels by 2008 to 2012. Talisman's UK installations are currently participating in the first phase of the European Union Emission Trading Scheme ("EU ETS"), which runs from 2005 to 2007, inclusive. Direct costs associated with this participation have been negligible. Phase two of the EU ETS runs from 2008 to 2012, inclusive. The UK Government submitted its National Allocation Plan ("NAP") for phase two of the EU ETS to the European Commission in August, 2006. The NAP specifies a cap on carbon dioxide emissions for the covered sectors, the methods for allocating emission allowances to covered installations, and the number of emission allowances to be allocated to each covered installation. Talisman expects that phase two compliance costs will not be material; however, this will depend in part on future pricing in the EU and global carbon markets.

Dependence on Other Operators

Other companies operate some of the assets in which Talisman has interests. As a result, Talisman may have limited ability to exercise influence over operations of these assets or their associated costs, which could adversely affect the Company's financial performance. The success and timing of Talisman's activities on assets operated by others will therefore depend on a number of factors that may be outside of the Company's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and the risk of management practices. For information on the percentages of assets which are operated/non-operated by Talisman, see "Description of The Business".

Differences in Ownership Interests in Foreign Operations

In Canada and the US, the state or private land owners own oil and gas rights and lease those rights to corporations who are responsible for the development of such rights within the time frames described in the leases. This practice differs distinctly in some foreign countries in which Talisman does or may do business in the future. In those countries, the state often grants interests in large tracts of lands or offshore fields and maintains control over the development of the oil and gas rights, in some cases through equity participation in the exploration and development of the rights. This usually includes the imposition of obligations on Talisman to complete minimum work within specified timeframes. Transfers of interests typically require a state approval, which may delay or otherwise impede transfers. In addition, if a dispute arises in Talisman's foreign operations, the Company may be subject to the exclusive jurisdiction of foreign arbitration tribunals or foreign courts.

Competition

The petroleum industry is highly competitive. Specific disclosure regarding competition is disclosed under the heading "Competitive Conditions" in this Annual Information Form.

Exchange Rate Fluctuations

Talisman's consolidated financial statements are presented in C$. Results of operations are affected primarily by the exchange rates between the C$, the US$, UK£ and Norwegian Kroner ("NOK"). These exchange rates have varied substantially in the last five years. Most of the Company's revenue is received in or is referenced to US$ denominated prices, while the majority of Talisman's expenditures are denominated in C$, US$, UK£ and NOK. A change in the relative value of the C$ against the US$ or the UK£ would also result in an increase or decrease in Talisman's US$ or UK£ denominated debt, as expressed in C$ and the related interest expense. Talisman is also exposed to fluctuations in other foreign currencies.

Hedging Programs

Talisman monitors the Company's exposure to variations in commodity prices, interest rates and foreign exchange rates and in response thereto puts in place commodity hedging contracts from time to time. The Company may in the future find it appropriate to enter into additional derivative financial instruments and physical delivery contracts to reduce such exposure. The terms of these instruments or contracts may limit the benefit of commodity price increases and changes in interest rates and currency value, which are otherwise favorable to Talisman and may result in financial or opportunity loss due to delivery commitments, royalty rates and counterparty risks associated with the contracts.

Dependence on Management and Other Personnel

The success of Talisman is dependent upon its management and the quality of its personnel. Failure to retain current employees or to attract and retain new employees with the necessary skills could have a materially adverse effect on Talisman's growth and profitability. Numerous competing

large scale oil and gas development projects have significantly increased the demand for industry specific personnel. In addition, a significant percentage of the workforce will be eligible for retirement in the next few years.

Transfer Agents and Registrars

Computershare Investor Services Inc., at 600, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8, along with its co-transfer agent, Computershare Trust Company, NA, is the transfer agent and registrar for the Common Shares of the Company. Computershare Trust Company of Canada also acts as trustee for various public debt securities. JPMorgan Chase Bank N.A., London Branch, c/o The Bank of New York, One Canada Square, London, E14 5AL, UK, acts as trustee for the 6.625% unsecured notes listed on the London Stock Exchange. Bank of Nova Scotia Trust Company of New York of One Liberty Plaza, New York, New York, 10006 acts as trustee for various public debt securities. The Company has not retained transfer agents for any other outstanding securities.

Interests of Experts

Talisman's auditor is Ernst & Young LLP, Chartered Accountants, Ernst & Young Tower, 1000, 440 - 2nd Avenue SW, Calgary, Alberta, T2P 5E9. Ernst & Young LLP is independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta.

Mr. Michael Adams, an employee of Talisman, has provided the report on reserves data attached as Schedule A to this Annual Information Form in his capacity as Talisman's Internal Qualified Reserves Evaluator. Mr. Adams owns less than 1% of the outstanding Common Shares.

Additional Information

Additional information related to the Company may be found on SEDAR at www.sedar.com.

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's management information circular for its most recent annual meeting of security holders that involved the election of directors. Additional financial information is provided in the Company's audited consolidated financial statements for the year ended December 31, 2006 and related annual management's discussion and analysis.

Copies of the Company's Annual Report may be obtained from Talisman's website at www.talisman-energy.com or upon request from:

Investor Relations and Corporate Communications Department
Talisman Energy Inc.
Suite 3400, 888 3rd Street SW
Calgary, Alberta, T2P 5C5
E-mail: tlm@talisman-energy.com

Schedule A

Report on Reserves Data by Talisman's Internal Qualified Reserves Evaluator

To the Board of Directors of Talisman Energy Inc. (the "Company"):

1. The Company's staff and I have evaluated the Company's reserves data as at December 31, 2006. The reserves data, which has been prepared in accordance with US disclosure requirements, including the relevant definitions, legal requirements and standards of the United States Securities and Exchange Commission and the United States Financial Accounting Standards Board ("US Disclosure Requirements"), consist of the following:

   (a) proved oil and gas reserves quantities estimated as at December 31, 2006; and

   (b) the related standardized measure of discounted future net cash flows.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

3. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society) applied in such modified manner as we considered necessary to reflect the terminology and standards of the US Disclosure Requirements. We are not independent of the Company, within the meaning of the term "independent" under those standards.

4. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook as modified as set out above.

5. The following sets forth the standardized measure of discounted future net cash flows (after deducting income taxes) attributed to proved oil and gas reserve quantities, calculated using a discount rate of 10%, included in the reserves data of the Company evaluated for the year ended December 31, 2006:

Location of Reserves (country or foreign geographic area)	Standardized Measure of Discounted Future Net Cash Flows (millions of C$, after income taxes, 10% discount rate)
North America	6,013
United Kingdom	3,298
Scandinavia	560
Southeast Asia	2,331
Other	817
Total	**13,019**

6. In our opinion, the reserves data evaluated by us have, in all material respects, been determined in accordance with the COGE Handbook applied in the modified manner as set out above.

7. We have no responsibility to update our evaluation for events and circumstances occurring after the date of this report.

8. Reserves data are estimates only and not exact quantities. In addition, the reserves data are based on judgements regarding future events. Accordingly, actual results will vary and the variations may be material.

(Signed)
Michael Adams
Internal Qualified Reserves Evaluator
Talisman Energy Inc.
Calgary, Alberta

March 13, 2007

Schedule B

Report of Management and Directors on Oil and Gas Disclosure

Management of Talisman Energy Inc. (the "Company") is responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data prepared in accordance with US disclosure requirements, including the relevant definitions, legal requirements and standards of the United States Securities and Exchange Commission and the United States Financial Accounting Standards Board ("US Disclosure Requirements"), which consist of the following:

(a) proved oil and gas reserve quantities estimated as at December 31, 2006; and

(b) the related standardized measure of discounted future net cash flows.

The Company's reserves evaluation staff, including our Internal Qualified Reserves Evaluator who is an employee of the Company, have evaluated the Company's reserves data. The report of the Internal Qualified Reserves Evaluator accompanies this report.

The Reserves Committee of the Board of Directors has:

(a) reviewed the Company's procedures for providing information to the Internal Qualified Reserves Evaluator;

(b) met with the Internal Qualified Reserves Evaluator to determine whether any restrictions placed by management affect the ability of the Internal Qualified Reserves Evaluator to report without reservation; and

(c) reviewed the reserves data with management and the Internal Qualified Reserves Evaluator.

The Reserves Committee of the Board of Directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has, on the recommendation of the Reserves Committee, approved:

(a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information contained in the Annual Information Form accompanying this report;

(b) the filing of the report of the Internal Qualified Reserves Evaluator on the reserves data; and

(c) the content and filing of this report.

In our view, the reliability of the internally generated reserves data is not materially less than would be afforded by our involving independent qualified reserves evaluators or independent qualified reserves auditors to evaluate or audit and review the reserves data. The Company is therefore relying on an exemption, which it sought and was granted by securities regulatory authorities, from the requirement under securities legislation to involve independent qualified reserves evaluators or independent qualified reserves auditors.

The primary factors supporting the involvement of independent qualified reserves evaluators or independent qualified reserves auditors apply when (i) their knowledge of, and experience with, a reporting issuer's reserves data are superior to that of the internal evaluators and (ii) the work of the independent qualified reserves evaluators or independent qualified reserves auditors is significantly less likely to be adversely influenced by self-interest or management of the reporting issuer than the work of internal reserves evaluation staff. In our view, neither of these factors applies in our circumstances.

Our view is based in large part on the following. Our reserves data were developed in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook applied in such modified manner as the Company considered necessary to reflect the terminology and standards of the US Disclosure Requirements. Our procedures, records and controls relating to the accumulation of source data and preparation of reserves data by our internal reserves evaluation staff have been established, refined and documented over many years. Our internal reserves evaluation staff includes approximately 133 persons with full-time or part-time responsibility for reserves evaluation, with an average of approximately 17 full-time or part-time years of relevant experience in evaluating reserves, of whom 45 are qualified reserves evaluators for purposes of securities regulatory requirements. Our internal reserves evaluation management personnel includes approximately 40 persons with full-time or part-time responsibility for reserves evaluation management, with an average of approximately 23 full-time or part-time years of relevant experience in evaluating and managing the evaluation of reserves, 17 of whom were qualified reserves evaluators for purposes of securities regulatory requirements.

Reserves data are estimates only, and are not exact quantities. In addition, the reserves data are based on judgments regarding future events. Accordingly, actual results will vary and the variations may be material.

(Signed)
James W. Buckee
President and Chief Executive Officer

(Signed)
Ronald J. Eckhardt
Executive Vice-President,
North American Operations

(Signed)
T. Nigel D. Hares
Executive Vice-President,
International Operations (West)

(Signed)
A. Paul Blakeley
Executive Vice-President,
International Operations (East)

(Signed)
Charles W. Wilson
Director

(Signed)
Kevin S. Dunne
Director

March 13, 2007

Schedule C

Audit Committee Information

Composition of Audit Committee

As at March 13, 2007, Talisman's Audit Committee consists of William R.P. Dalton, Lawrence G. Tapp, Robert G. Welty (Chairman) and Charles W. Wilson. The Board of Directors has determined that all members of the Audit Committee are "independent" and "financially literate" as defined in Multilateral Instrument 52-110 ("MI 52-110"). In addition, in accordance with New York Stock Exchange corporate governance listing standards, the Board of Directors has determined that Robert G. Welty is an audit committee financial expert.

MI 52-110 states that a member of an audit committee is independent if the member has no direct or indirect material relationship with the issuer. A material relationship is a relationship which could, in the view of the issuer's Board of Directors, reasonably interfere with the exercise of a member's independent judgement.

In addition, an individual is considered financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer's financial statements.

Education and Experience

The members of Talisman's Audit Committee have education and experience relevant to the performance of their responsibilities as Audit Committee members, which includes the following:

William R.P. Dalton held various positions with the HSBC group of companies, including Chief Executive of HSBC Bank plc from 1998 to 2004, Executive Director of HSBC Holdings plc from 1998 to 2004, Global Head of Personal Financial Services for HSBC Group from 2002 to 2004 and various positions in the Canadian operations of HSBC prior to 1998. He currently serves on the board of directors of First Choice Holidays plc. Mr. Dalton holds a Bachelor of Commerce degree (Honors) and was awarded an Honorary Doctorate (Honorary Doctor of the University) by the University of Central England in Birmingham in 2001.

Lawrence G. Tapp is currently Chairman of the Board of ATS Automation Tooling systems Inc., Softchoice Corporation, Comcare Health Services and Mainstreet Equity Corporation. Mr. Tapp served as Dean of the Richard Ivey School of Business of the University of Western Ontario from 1995 to 2003, Executive in Residence of the Faculty of Management and Adjunct Professor, University of Toronto from 1992 to 1995, and Vice Chairman, President and Chief Executive Officer of Lawson Mardon Group Limited from 1985 to 1992. Mr. Tapp holds a Bachelor of Arts degree and an Executive Master of Business Administration degree.

Robert G. Welty, Chairman of the Audit Committee, is currently Chairman and a director of Sterling Resources Ltd. ("Sterling"). Mr. Welty served as Chief Executive Officer of Sterling from 1998 to 2005. He served as President, Chief Executive Officer and Director of Canadian Fracmaster Ltd. from 1994 to 1995. Mr. Welty was also President, Chief Executive Officer and director of Bow Valley Energy Inc. from 1992 to 1994, which was subsequently acquired by Talisman. He currently serves on the board of directors of Sterling Resources Ltd. Mr. Welty holds a Bachelor of Arts degree (Honors) in Economics and is a Chartered Accountant.

Charles W. Wilson has held various positions with the Shell group of companies, including President, Chief Executive Officer and a director of Shell Canada Limited from 1993 to 1999, Executive Vice President US Downstream Oil and Chemical of Shell Oil Company from 1988 to 1993 and Vice President US Refining and Marketing of Shell Oil Company from 1987 to 1988. He currently serves on the board of directors of ATCO Ltd., Akita Drilling Ltd., Big Rock Brewery Income Trust and Canadian Utilities Limited. Mr. Wilson holds a Bachelor of Science degree in Civil Engineering and a Master of Science degree in Engineering.

Audit Fees and Pre-Approval of Audit Services

The following table presents fees for the audits of the Company's annual consolidated financial statements for 2006 and 2005 and for other services provided by Ernst & Young LLP:

	2006	2005
Audit fees	**$ 2,980,400**	$ 2,607,100
Audit-related fees	**$ 275,500**	$ 386,000
Tax fees	**$ 441,596**	$ 624,800
Internal Controls Attestation Fees	**$ 1,949,675**	$ –

The audit-related fees are primarily for prospectus filings, pension plan audits and attestation procedures related to cost certifications and government compliance. Tax fees are primarily for tax compliance and tax advisory services. Fees for internal controls attestation relate to services provided for attestation to the effectiveness of internal controls over financial reporting. The Audit Committee has concluded that the provision of tax services is compatible with maintaining Ernst & Young's independence.

Under the terms of reference of the Audit Committee, which follow, the Audit Committee is required to review and pre-approve the objectives and scope of the external audit work and proposed fees. In addition, the Audit Committee is required to review and pre-approve all non-audit services, including tax services, the Company's external auditors are to perform.

During 2003, the Audit Committee implemented specific procedures regarding the pre-approval of services to be provided by the Company's external auditors. These procedures specify certain prohibited services that are not to be performed by the Company's external auditors. In addition, these procedures require that, at least annually, prior to the period in which the services are proposed to be provided, the Company's management, in conjunction with the Company's external auditors, prepares and submits to the Audit Committee a complete list of all proposed services and related fees to be provided to the Company by the Company's external auditors. Under the Audit Committee pre-approval procedures, for those non-audit services proposed to be provided by the Company's external auditors that have not been previously approved by the Audit Committee, the Audit Committee has delegated to the Chairman of the Audit Committee the authority to grant pre-approvals of such services. The decision to pre-approve a service covered under this procedure is presented to the full Audit Committee at the next scheduled meeting. At each of the Audit Committee's regular meetings, the Audit Committee is provided an update as to the status of services previously approved.

Pursuant to these procedures since their implementation in 2003, 100% of each of the services relating to fees reported as audit-related, tax and all other were pre-approved by the Audit Committee or its delegate, the Chair of the Audit Committee.

The full text of the terms of reference for Talisman's Audit Committee follows.

Terms of Reference

Audit Committee

Mission Statement

The Audit Committee's mission is to assist the Board in fulfilling its obligations by overseeing and monitoring the Company's financial accounting and reporting process and the integrity of the Company's financial statements and its internal control over financial reporting and the external financial audit process. To fulfill this mission, the Audit Committee has received this mandate and has been delegated certain authorities that it may exercise on behalf of the Board.

Composition

At the first meeting of the Board of Directors of the Company after the election of Directors at the annual meeting of shareholders, the Board shall appoint an Audit Committee comprised of not less than three and not more than six Directors of the Company. Each member of the Audit Committee shall be independent (as required by applicable securities laws and stock exchange rules). At least one member of the Audit Committee shall be an audit committee financial expert and all members of the Audit Committee shall have an appropriate level of financial literacy as required under applicable stock exchange rules and securities laws and determined by the Board from time to time. The Board may replace or remove from the Audit Committee any member at any time.

The Chair of the Audit Committee shall be appointed by the Board at the meeting of the Board referred to above. The Chair shall preside as chair at each Committee meeting, lead Committee discussion on meeting agenda items and report to the Board, on behalf of the Committee, with respect to the proceedings of each Committee meeting. The Audit Committee shall designate a Secretary to the Audit Committee who may be a member of the Audit Committee or an officer or employee of the Company. The Secretary shall keep minutes and records of all meetings of the Audit Committee. In the event that either the Chair or the Secretary is absent from any meeting, the members present shall designate any Director present to act as Chair and shall designate any Director, officer or employee of the Company to act as Secretary.

Meetings

Meetings of the Audit Committee, including telephone conference meetings, shall be held at such time and place as the Chair of the Audit Committee may determine. Notice of meetings shall be given to each member not less than 24 hours before the time of the meeting, provided that meetings of the Audit Committee may be held without formal notice if all of the members are present and do not object to notice not having been given, or if those absent waive notice in any manner before or after the meeting.

Notice of meeting may be given verbally or delivered personally, given by mail, facsimile or other electronic communication and need not be accompanied by an agenda or any other material. The notice shall however specify the purpose or purposes for which the meeting is being held.

At the request of the auditor of the Company (the "Auditor"), the Chief Executive Officer, the Chief Financial Officer or a member of the Audit Committee, the Chair shall call and convene a meeting of the Audit Committee.

Any three members of the Audit Committee shall constitute a quorum.

The Audit Committee shall meet at least quarterly.

Representatives of the Auditor and management of the Company shall have access to the Audit Committee each in the absence of the other.

The Auditor shall be notified of all meetings of the Audit Committee and, when appropriate, it may attend and be heard at any such meeting and shall attend if requested to do so by a member of the Audit Committee.

Any matter the Audit Committee does not unanimously approve will be referred to the Board for consideration.

No alteration to the roles and responsibilities of the Audit Committee shall be effective without the approval of the Board of Directors.

The Audit Committee shall review the adequacy of these Terms of Reference on an annual basis and recommend any changes it considers appropriate to the Governance and Nominating Committee, which shall in light of the Company's governance structure and framework recommend any changes it considers appropriate to the Board of Directors.

Role and Responsibilities

A. Financial Statements and Other Financial Information

The Audit Committee shall:

1 oversee the Company's financial reporting process on behalf of the Board and report on the results of these activities to the Board;

2 review the Company's annual financial statements and, if determined to be satisfactory, recommend them to the Board for approval;

3 review and, if determined to be satisfactory, recommend to the Board for approval the annual earnings press release and management's discussion and analysis of operations contained in the annual report and their consistency with the financial statements;

4 review and, if determined to be satisfactory, approve the Company's interim financial statements prior to their publication, filing or delivery to security holders;

5 review and, if determined to be satisfactory, approve all interim earnings press releases and management's discussion and analysis of operations which accompanies interim financial statements;

6 ensure that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, other than the public disclosure referred to in items 2 to 5 above, and periodically assess the adequacy of those procedures;

7 review the appropriateness of any report or opinion proposed to be rendered in connection with the year-end consolidated financial statements;

8 review the nature, substance and appropriateness of significant accruals, reserves and other estimates;

9 review the appropriateness of impairment provisions;

10 review with the Auditor and with the management of the Company and, if determined to be satisfactory, approve on behalf of the Board all financial statements included in a prospectus or other similar document; and

11 review and assess regularly:

  a. the quality and acceptability of accounting policies and financial reporting practices used by the Company;

  b. any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the Company;

  c. any new or pending developments, in accounting and reporting standards that may affect the Company;

  d. the key financial estimates and judgements of management that may be material to the financial reporting of the Company;

  e. policies related to financial disclosure risk assessment and management; and

  f. responses by management to material information requests from government or regulatory authorities which may have an impact on the financial reporting of the Company.

B. External Audit

The Auditor shall be ultimately accountable to the shareholders of the Company, who shall be represented by the Board of Directors and the Audit Committee in their dealings with the Auditor. The Audit Committee shall recommend to the Board the auditor that will be proposed at the annual shareholders' meeting for appointment as the Auditor for the ensuing year. The Auditor shall report directly to the Audit Committee, which shall be responsible for compensation and retention of the Auditor and oversight of the Auditor's work (including resolution of disagreements between management and the Auditor regarding financial reporting).

At least annually, the Audit Committee shall require that the Auditor provide a formal written statement describing: (i) the firm's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or

investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (iii) all relationships between the Auditor and the Company.

With respect to (iii) above and for more clarity, annually the Audit Committee shall obtain a written letter from the Auditor pursuant to the Independence Standards Board standard #1 disclosing all relationships between the Auditor and its related entities and the Company and its related entities, and confirming the Auditor's independence from the Company.

The Audit Committee shall not recommend to the Board that an auditor be appointed as the Auditor if the Company's Chief Executive Officer, Chief Financial Officer or Controller was employed by the auditor and participated in any capacity in the Company's audit during the one-year period preceding the date of the initiation of the Company's audit for which the Audit Committee is recommending the appointment. The Audit Committee shall review management's policies for hiring partners, employees and former partners and employees of the Auditor and former external auditor of the Company. The Audit Committee further shall ensure the independence of the Auditor by reviewing, and discussing with the Board if necessary, any relationships that may adversely affect the independence of the Auditor.

The Audit Committee shall review the planning and results of external audit activities and the ongoing relationship with the Auditor. In this regard the Audit Committee shall:

1. review and, if determined to be satisfactory, pre-approve the terms of the annual external audit engagement plan, including but not limited to the following:
    a. engagement letter;
    b. objectives and scope of the external audit work;
    c. materiality limit;
    d. areas of audit risk;
    e. staffing;
    f. timetable; and
    g. proposed fees;
2. annually, or as otherwise required by the Audit Committee, review a written report from the Auditor on the critical accounting policies of the Company;
3. review and, if determined to be satisfactory, pre-approve all non-audit services, including tax services, the Auditor is to perform, and it shall consider the impact the provision of such services could have on the independence of the external audit work. The Audit Committee may delegate this authority to grant pre-approvals to one or more designated members of the Audit Committee, provided that such delegates present their decisions to pre-approve services to the full Audit Committee at each of its scheduled meetings. The Audit Committee shall not permit the Auditor to perform any non-audit service prohibited by law applicable to the Company;
4. meet with the Auditor and management to discuss the Company's annual financial statements and the Auditor's report, the interim financial statements, and management's discussion and analysis relating to both the annual and interim financial statements. Meetings with the Auditor and management shall be held separately, periodically, as scheduled by the Audit Committee;
5. review and advise the Board with respect to the plan, conduct and reporting of the annual external audit, including but not limited to the following:
    a. any audit problems or difficulties encountered, and management's response thereto, and any restriction imposed by management during the annual audit;
    b. any significant accounting or financial reporting issue;
    c. the Auditor's evaluation of the Company's system of internal controls and related procedures and documentation;
    d. the post audit or management letter containing any of the Auditor's findings or recommendations, including management's response thereto and the subsequent follow-up to any identified control weaknesses; and
    e. any other matters that the Auditor brings to the attention of the Audit Committee;
6. prepare an Audit Committee report to be included in the Company's annual corporate governance disclosure; and
7. fix the remuneration of the Auditor.

C. Internal Audit

The Audit Committee shall oversee the internal audit function of the Company and the relationship of the internal auditor with management. Periodically, the Audit Committee shall meet separately with each of the internal auditor and management. To assist the Board in fulfilling its oversight and monitoring obligations in this area, the Audit Committee shall:

1. review and consider the appropriateness of the internal audit function and organizational framework;
2. be involved in the appointment or removal of the internal auditor;
3. support the independence of the internal audit function and the internal auditor;
4. review and consider the appropriateness of the internal audit plan and resources; and
5. review the findings of the internal auditor and consider the appropriateness of follow-up plans.

D. Internal Financial Control and Information Systems

The Audit Committee will review and obtain reasonable assurance that the internal financial control and information systems are operating effectively to produce accurate, appropriate and timely financial information. In this regard the Audit Committee will:

1. obtain reasonable assurance by discussions with and reports from management, the internal auditor and the Auditor, that:
   (a) the information systems, security of information and recovery plans are adequate and reliable; and
   (b) the internal control systems and procedures are properly designed and effectively implemented;
2. review the appointment of the Chief Financial Officer and adequacy of accounting and finance resources, as required; and
3. ensure that direct and open communication exists among the Audit Committee, the Auditor and the internal auditor.

E. Insurance

The Audit Committee shall review insurance coverage of significant business risks and uncertainties.

F. Subsidiaries

The Audit Committee shall receive a report on the Company's material Subsidiaries, as requested from time to time, concerning any material non-routine structures e.g. special purpose entities, off balance sheet items or partnership arrangements.

G. Investigations and Access to Management

The Audit Committee shall have the authority to direct and to supervise the investigation into any matter brought to its attention within the scope of its duties. It shall establish procedures for the receipt, retention and treatment of (i) complaints the Company may receive regarding accounting, internal accounting controls, or auditing matters, and (ii) confidential, anonymous submissions from Company employees expressing concern regarding questionable accounting or auditing matters.

The Audit Committee has the authority to engage independent counsel and other advisers having special competencies, as it determines necessary to carry out its duties. The Audit Committee shall determine the appropriate amount of funding the Company shall provide for compensation of any such advisors.

In carrying out its responsibilities, the Audit Committee shall have access to such members of the Company's management as appropriate, including the persons having responsibility for:

1. insurable risks, foreign currency and interest rate exposure and related derivatives;
2. tax exposures and related reserves;
3. systems security and system integrity recovery plans;
4. compliance with domestic and international regulatory requirements (such as the Corruption of Foreign Public Officials Act and Foreign Corrupt Practices Act) and material legal exposures;
5. plans and actions taken with respect to commodity price hedging;
6. financial accounting; and
7. internal audit.

The Audit Committee shall receive from management copies of any report of a material nature from regulators or government bodies which is relevant to the responsibilities of the Audit Committee set out in this mandate and of management's responses thereto.

H. General

The Audit Committee shall review corporate policies that are within the scope of the roles and responsibilities specified by these terms of reference prior to submission for approval by the Board; monitor compliance on a regular basis; and ensure these policies are periodically reviewed and kept current.

The Audit Committee shall perform such other duties as may be assigned to it by the Board from time to time or as may be required by applicable law and stock exchange requirements.

In respect of matters within its purview under this mandate and delegation, the Audit Committee shall assist the Board in its oversight of the Company's compliance with legal and regulatory requirements.

The Audit Committee shall report to the Board at each regularly scheduled Board meeting next succeeding any Committee meeting.

The Audit Committee shall evaluate its own performance annually.

TALISMAN
ENERGY

3400, 888 - 3rd Street SW
Calgary, Alberta, Canada T2P 5C5
Telephone: (403) 237-1234
Facsimile: (403) 237-1902
tlm@talisman-energy.com
www.talisman-energy.com

creating value:
in the upstream oil and gas business

TALISMAN
ENERGY

Talisman Energy Inc. is an upstream oil and gas company with a balanced portfolio of North American and international operations. Talisman was established as an independent company in 1992 and has its headquarters in Calgary, Alberta, Canada.

Talisman is listed on both the Toronto and New York stock exchanges under the symbol TLM. Talisman is also part of the S&P/TSX 60 index. At year-end, the Company had an enterprise value (market value of common shares plus book value of debt) of approximately $25 billion with 1,064 million shares outstanding.

Talisman is committed to conducting its business in an ethically, socially and environmentally responsible manner. The Company is a participant in the United Nations Global Compact and is also included in the Dow Jones Sustainability (North America) Index.

Readers are referred to the advisories, definitions and abbreviations at the back of this Annual Financial Report. Talisman Energy Inc.'s subsidiaries conduct business in various parts of the world. For ease of reference, the terms "Talisman" and "Company" are used in this Annual Financial Report to refer collectively to Talisman Energy Inc., its direct and indirect subsidiaries and partnership interests held by Talisman Energy Inc. and its subsidiaries, unless indicated otherwise. References to production, reserves, acreage and drilling are gross (before royalty) numbers unless otherwise indicated.

This 2006 Annual Financial Report provides the Company's detailed Management's Discussion and Analysis, Audited Consolidated Financial Statements and Notes and Supplementary Information. Talisman encourages its stakeholders to read the Company's 2006 Annual Report Summary, as well as its 2006 Corporate Responsibility Report. These documents can be obtained from the Company or viewed online at **www.talisman-energy.com**.

Front Cover: Picture of the Talisman-operated Piper B platform located in the North Sea. Modifications are being made to the Piper platform to handle additional production volumes from Talisman's Tweedsmuir field development.

Management's Discussion and Analysis

March 13, 2007

Highlights

(millions of C$ unless otherwise stated)	2006	2005[1]	2004[1]
Net income	**2,005**	1,561	654
Net income from continuing operations	**1,452**	1,354	519
Net income from discontinued operations	**553**	207	135
Dividends	**163**	125	114
Per share[2] (C$)			
Net income	**1.84**	1.41	0.57
Net income from continuing operations	**1.33**	1.23	0.45
Net income from discontinued operations	**0.51**	0.18	0.12
Dividends	**0.15**	0.11	0.10
Production (mboe/d)	**485**	470	438
Production per share[2] (boe/share)	**0.162**	0.155	0.139
Average sales price ($/boe)	**57.45**	56.67	42.75
Gross sales[3]	**9,362**	8,888	6,299
Operating costs ($/boe)	**9.98**	8.41	7.26
DD&A, exploration and dry hole expense[3]	**2,619**	2,205	2,028
Cash provided by operating activities	**4,374**	4,871	3,119
Cash provided by continuing operating activities	**4,086**	4,459	2,780
Exploration and development spending[3]	**4,540**	3,132	2,471
Total assets	**21,461**	18,354	12,408
Total long-term debt	**4,560**	4,263	2,457
Proved reserves additions (before acquisitions and divestitures) (mmboe)	**202**	203	265
Proved reserves (mmboe)	**1,667**	1,639	1,488
Proved reserves replacement ratio[4]	**116%**	120%	166%

1 Prior years have been restated to present the effect of discontinued operations. See note 2 to the Consolidated Financial Statements.

2 All per share amounts have been retroactively restated to reflect the Company's three-for-one stock split in May 2006. See note 8 to the Consolidated Financial Statements.

3 From continuing operations.

4 See the MD&A section entitled Reserves Replacement for method of calculation.

This Management's Discussion and Analysis (MD&A) dated March 13, 2007 should be read in conjunction with the Consolidated Financial Statements of the Company. The Company's Consolidated Financial Statements and the financial data included in the MD&A have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). A summary of the differences between Canadian GAAP and those generally accepted in the United States (US GAAP) is contained in note 20 to the Consolidated Financial Statements.

Unless otherwise stated, references to production and reserves represent Talisman's working interest share (including Talisman's share of volumes of royalty interests and net profits interests) before deduction of royalties. Throughout this MD&A, the calculation of barrels of oil equivalent (boe) is calculated at a conversion rate of six thousand cubic feet (mcf) of natural gas to one barrel (bbl) of oil and is based on an energy equivalence conversion method. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalence conversion method primarily applicable at the burner tip and does not necessarily represent a value equivalence at the wellhead.

Dollar amounts included in the MD&A are expressed in Canadian dollars (C$), unless otherwise indicated. All comparative percentages are between the years ended December 31, 2006 and December 31, 2005, unless stated otherwise.

The United Kingdom (UK) and Scandinavia, which were classified as the North Sea in 2005, are reported separately in 2006. The reporting segment entitled Other for 2006 includes results of operations for North Africa (Algeria and Tunisia) and Trinidad and Tobago, which were reported separately in 2005. Other exploration areas include Colombia, Peru and Qatar. During 2006, activities in Alaska, which previously had been included in the Other reporting segment, were reclassified and included in North America. Reclassifications have been made for all corresponding reported periods.

Talisman Energy Inc.'s subsidiaries conduct business in various parts of the world. Talisman Energy Inc.'s financial statements are prepared on a consolidated basis. For ease of reference, throughout this MD&A, the terms Talisman and the Company are used to refer collectively to Talisman Energy Inc., its direct and indirect subsidiaries and partnership interests held by Talisman Energy Inc. and its subsidiaries, unless the context indicates otherwise.

Information relating to changes in the Company's reporting segments in 2005 and 2006 is included in the section entitled Segmented Results Review of this MD&A.

Additional information relating to the Company, including the Company's Annual Information Form (AIF), can be found on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. The Company's annual report on Form 40-F may be found in the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) database at www.sec.gov.

Talisman's Performance Highlights in 2006

In 2006, production averaged a record 485 mboe/d, 3% higher than 2005. Net income for the year was a record $2 billion ($1.84 per share), 28% higher than 2005. The increase in net income was due to gains on asset sales, increased oil production and prices, hedging gains and decreased stock-based compensation charges, partially offset by the impact of the stronger C$ in relation to its US counterpart, decreased prices for natural gas in North America and increases in royalties, operating expenses, DD&A and taxes.

During 2006, Talisman repurchased more than 35 million shares at an average price of $18.66 per share, long-term debt increased to $4.6 billion with increased capital expenditures and the Company increased its semi-annual dividend rate by 32.4% to $0.075 per share.

In North America, 2006 operational highlights included major discoveries in the Northern Alberta Foothills, Monkman and Appalachia, as well as the completion of the Palliser and Lynx Pipelines. The Company added significant amounts of new acreage in Alaska and the Outer Foothills. In the UK and Scandinavia, the Company continued to progress 11 development projects which are expected to increase production to approximately 240,000 boe/d in 2009. In Indonesia, the commissioning of the Phase 2 expansion of the Corridor gas plant is underway. In Malaysia, the Bunga Tulip field came onstream in the fourth quarter and in Vietnam, a successful exploration well was drilling on Block 15-2/01 at year-end.

In 2006, production per share increased 4.4% over the previous year. Talisman spent $4.5 billion on exploration and development activities and participated in drilling 773 successful wells in 2006 and sold non-core properties for proceeds in excess of $870 million. During 2005 and 2004, production averaged 470 mboe/d and 438 mboe/d, respectively.

In 2006, Talisman added 202 mmboe of proved reserves, before acquisitions and dispositions, replacing 116% of production. Including acquisition and disposition activity, the Company added 203 mmboe of proved reserves also replacing 116% of production.

2007 Outlook Summary

Additional discussion of management's estimates and assumptions for 2007, as highlighted below, can be found in the MD&A section entitled Outlook for 2007:

- production is expected to average 485,000 boe/d, with a confidence level of +/ − 5%, essentially unchanged from 2006, reflecting previously announced asset sales of approximately 57,000 boe/d;
- exploration and development spending is expected to be $4.8 billion (including $2.3 billion in North America and $1.6 billion in the North Sea) with 2007 spending to focus on high quality projects while operating in a volatile commodity price environment;
- the Company plans to drill 448 gross wells in North America and 162 gross wells internationally;
- the Tweedsmuir field in the UK is expected to start production early in the second quarter of 2007; and
- first gas sales from the Corridor Block to West Java are expected in the summer of 2007.

2006 Variances

Net Income
(millions of C$)

2005 Net income	1,561
Favourable (unfavourable)	
Cash items	
Oil and liquids volumes	349
Oil and liquids prices	1,043
Oil and liquids foreign exchange price impact	(447)
Natural gas volumes	130
Natural gas prices	(369)
Natural gas foreign exchange price impact	(232)
Hedging – Commodities	143
Royalties	(87)
Other revenue	9
Operating expense	(313)
Transportation expense	(22)
Interest expense	(3)
Current taxes (including petroleum revenue tax) (PRT)	116
General and administrative	(32)
Stock-based compensation payments	(6)
Discontinued operations	(124)
Other	(79)
Total cash items variance	76
Non-cash items	
Depreciation, depletion and amortization (DD&A) expense	(316)
Dry hole expense	(55)
Exploration expense	(43)
Future taxes (including PRT)	(421)
Stock-based compensation (non-cash)	589
Discontinued operations	470
Other	144
Total non-cash items variance	368
2006 Net income	2,005

The significant variances from 2005 as summarized in the net income variance table are:

- higher prices for, and increased production of oil which more than offset the impact of the strengthening C$ and higher royalties;
- hedging gains, as a result of decreased natural gas prices;
- after tax gains on sale of assets of $356 million;
- operating expense increased with a change in the production mix, additional oil volumes and increased charges for power, processing, maintenance and well workovers;
- current taxes decreased as a result of increased capital allowances in the UK and lower US charges;
- DD&A expense increased $316 million, largely due to higher production, increased costs in North America and additional assets on production in the UK, Scandinavia and Southeast Asia; and
- the non-cash portion of the stock-based compensation expense decreased by $589 million (before tax), due primarily to the 90% increase in Talisman's share price during 2005 compared to the 4% decrease in 2006.

Discontinued Operations

In 2006, the Company announced a program to divest certain non-core oil and gas assets in Western Canada and the UK.

Operating results from these assets are included in net income from discontinued operations. During 2006, several deals closed, with the resulting after tax gains on disposals of assets of $147 million (North America assets) and $209 million (UK assets) included in net income from discontinued operations.

During 2006, the Company further advanced its plan to realize value from non-core assets by selling its oil sands interests. The sale of the Company's indirect interest in Syncrude closed on January 2, 2007 for proceeds of $477 million, with an after tax gain of $236 million to be included in net

income from discontinued operations in 2007. The Company held a 1.25% indirect interest in Syncrude, which produced approximately 3,400 bbls/d, net to Talisman, in 2006. Operating results from these assets are included in net income from discontinued operations, with the related assets and liabilities reported as assets and liabilities of discontinued operations in the Consolidated Balance Sheets.

In December 2006, Talisman entered into an agreement to sell its non-operated interests in the Brae area in the UK North Sea for consideration of US$550 million. Operating results from these assets are included in net income from discontinued operations, with the related assets and liabilities reported as assets and liabilities of discontinued operations in the Consolidated Balance Sheets. The resulting gain or loss on disposition of these assets will be recorded when the transaction closes, which is expected to occur later in 2007.

During the fourth quarter of 2006, Talisman announced plans to sell an additional 16,000 boe/d of oil and gas producing assets in Western Canada. These assets are not included in the results of discontinued operations as at December 31, 2006, but are expected to be reclassified in 2007.

Details on results of discontinued operations and related production are presented in the tables below. Prior years have been restated to present the effect of discontinued operations. See note 2 to the Consolidated Financial Statements.

Results of Discontinued Operations

	For the 12 months ended December 31								
	North America			United Kingdom			Total		
(millions of C$)	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Income from discontinued operations, net of tax	**39**	60	46	**158**	147	89	**197**	207	135
Gain on disposition of assets, net of tax	**147**	–	–	**209**	–	–	**356**	–	–
Income from discontinued operations	**186**	60	46	**367**	147	89	**553**	207	135

Daily Average Production Volumes (mboe/d)

	2006	2005	2004
Discontinued operations			
North America	**7**	11	12
United Kingdom	**26**	25	26
Discontinued operations	**33**	36	38

Continuing Operations Results Review

Revenue

Revenues from oil, liquids and natural gas sales in 2006 were $9.4 billion, 5% above last year, due to higher oil and liquids prices ($596 million), oil and liquids volumes ($349 million) and natural gas volumes ($130 million), partially offset by reduced natural gas prices ($601 million). Principally due to lower natural gas prices, hedging gains in 2006 were $66 million, compared to losses of $77 million in 2005.

Daily Average Production Volumes

	2006	2006 vs 2005	2005	2005 vs 2004	2004
		(%)		(%)	
Oil and liquids (mbbls/d)					
North America	48.3	(4)	50.5	(1)	51.0
United Kingdom[1]	91.9	(3)	95.2	(9)	104.2
Scandinavia[1]	32.5	26	25.7	336	5.9
Southeast Asia[1]	51.6	45	35.5	–	35.6
Other[1]	21.5	(15)	25.5	89	13.4
	245.8	6	232.4	11	210.1
Natural gas (mmcf/d)					
North America	897	1	885	4	852
United Kingdom	34	5	32	20	27
Scandinavia	14	59	9	157	4
Southeast Asia	292	3	284	9	260
	1,237	2	1,210	6	1,143
Continuing operations (mboe/d)	452.0	4	434.0	8	400.6
Discontinued operations					
North America					
– oil and liquids (mbbls/d)	5.0	(13)	5.8	(10)	6.5
– natural gas (mmcf/d)	12	(59)	30	(8)	33
United Kingdom					
– oil and liquids (mbbls/d)	10.9	(9)	11.8	–	11.8
– natural gas (mmcf/d)[2]	92	16	79	(5)	83
Discontinued operations (mboe/d)	33.2	(7)	35.8	(5)	37.6
Total mboe/d (6 mcf = 1 boe)	485	3	470	7	438
Production per share (boe/share)	0.162	4	0.155	11	0.139

1 Includes oil volumes produced into inventory for the year ended December 31, 2006 of 1,896 bbls/d, 500 bbls/d, 825 bbls/d and 936 bbls/d in the UK, Scandinavia, Southeast Asia, and Other, respectively, and for the year ended December 31, 2005 of 2,308 bbls/d, 1,362 bbls/d, 1,055 bbls/d and 1,242 bbls/d in the UK, Scandinavia, Southeast Asia and Other, respectively.

2 Includes gas acquired for injection and subsequent resale of 18 mmcf/d, 15 mmcf/d and 5 mmcf/d in 2006, 2005 and 2004, respectively.

Production

In 2006, total production from continuing and discontinued operations averaged a record 485 mboe/d, a 3% increase over last year's average of 470 mboe/d, while production per share increased by 4%. Production in 2004 was 438 mboe/d.

Actual 2006 production was less than the 515 to 545 mboe/d range per the 2006 Outlook in the 2005 MD&A as a result of the following unanticipated events:

- impact of volumes sold during the year was a reduction of approximately 5 mboe/d;
- poor weather, longer procurement lead times and delayed well tie-ins and infrastructure completion in North America;
- production shutdowns for maintenance in the UK were longer than expected;
- reduced production due to early water breakthrough on two wells in Scandinavia;
- Southeast Asia had lower than expected gas nominations and its production was also affected by harsh weather; and
- compressor outages in North America, the UK and Algeria reduced production.

Volumes reported in discontinued operations represent production from both assets currently held for sale as at December 31, 2006, as well as production up until the date of closing from assets disposed of during 2006.

Continuing Operations

Natural gas production in North America averaged 897 mmcf/d, with increases in several core areas, reflecting Talisman's successful 2006 drilling program, as 701 wells were drilled with a 98% success rate. New wells on production contributed to increases in Bigstone/Wild River (up 20 mmcf/d to 129 mmcf/d), Monkman (up 10 mmcf/d to 114 mmcf/d) and Alberta Foothills (up 8 mmcf/d to 155 mmcf/d). Partially offsetting these increases were the impact of a turnaround at Edson and natural declines. The Talisman-operated Lynx and Palliser Pipelines commenced operations in 2006, transporting a combined 31 mmcf/d and 27 mmcf/d, respectively, of Talisman and third party gas production at year-end. North America oil and liquids average production was 48,275 bbls/d during the year, down 4% from 2005 due to asset sales, natural decline rates and the Company's continued focus on natural gas.

Oil and liquids production in the UK averaged 91,897 bbls/d, a 3% decrease from 2005 as production increases from 2006 development drilling and asset acquisitions over the past year were more than offset by the impact of extended turnarounds and natural declines. Production decreased due to planned facility shutdowns at Piper (for Tweedsmuir tie-ins, down 2,400 bbls/d to 10,110 bbls/d), Beatrice (down 1,407 bbls/d to 2,317 bbls/d), unplanned shutdowns for a Scapa riser failure at Claymore (down 2,407 bbls/d to 18,100 bbls/d), repairs to a compressor at Tartan (down 2,102 bbls/d to 4,503 bbls/d) and repairs to Galley flowlines (down 1,870 bbls/d to 3,529 bbls/d). Turnarounds and a compressor failure at Ross/Blake decreased production by 1,220 bbls/d to 14,948 bbls/d. Natural gas production in the UK increased 5% over 2005 to 34 mmcf/d.

Oil and liquids production in Scandinavia averaged 32,474 bbls/d, a 26% increase from 2005 as production increases from asset acquisitions in 2005 and development drilling more than offset the impact of turnarounds and natural declines. Production at Gyda averaged 7,441 bbls/d (down 1,008 bbls/d due to natural declines and water injection repairs). Production from the Varg field was down 3,696 bbls/d to 9,642 bbls/d due to early water breakthrough on two wells, which reduced production from February to September. The Brage assets produced an average of 6,950 bbls/d during the year. The Veslefrikk and Siri fields (acquired through the Paladin Resources plc (Paladin) acquisition) produced an average of 5,362 bbls/d and 3,056 bbls/d, respectively, during 2006. Natural gas production for the year averaged 14 mmcf/d (up from 9 mmcf/d in 2005) primarily due to the Paladin assets acquired at the end of 2005.

Southeast Asia produced 51,582 bbls/d of oil and liquids, a 45% increase over 2005. A full year of production from the South Angsi PM-305 field (onstream in mid-August of 2005) and the startup of the Naga Kecil well in PM-314 in July 2006 increased production by 8,743 bbls/d to 15,214 bbls/d in 2006. The PM-3 CAA block in Malaysia/Vietnam decreased 3,364 bbls/d to 18,164 bbls/d in 2006, with an extended shut down period due to bad weather conditions and natural declines. Production from SE Sumatra and Offshore NW Java in Indonesia and from the Australia properties, which were all part of the Paladin acquisition, averaged 4,195 bbls/d, 665 bbls/d and 7,367 bbls/d, respectively, in 2006. Production at Corridor and the OK Block remained relatively unchanged from 2005 at 5,976 bbls/d.

Natural gas production in Southeast Asia increased 8 mmcf/d to 292 mmcf/d in 2006. In Malaysia/Vietnam, natural gas production from PM-3 CAA was 87 mmcf/d in 2006, down 18% from the previous year due to reduced demand from the buyer during the first half of the year, an extended shutdown in August as a result of bad weather conditions and a delay in the commissioning of the BRE gas processing facility during the second half of the year. Natural gas sales in Indonesia averaged 205 mmcf/d (versus 177 mmcf/d in 2005), with incremental production from 2006 development drilling and higher demand for Corridor gas from Caltex and Singapore Power. Gas production from the acquired SE Sumatra and the Offshore NW Java assets averaged 8 mmcf/d.

Oil and liquids production from Other areas averaged 21,559 bbls/d, down 3,930 bbls/d from last year. In Algeria, production averaged 12,389 bbls/d, down from 15,261 bbls/d, due to the failure of the gas reinjection compressor motor at the MLN facilities which shut down production from May 1 through August 12, 2006. Production from Tunisia, which was acquired from Paladin in late 2005, averaged 804 bbls/d during the year. Trinidad and Tobago production averaged 8,366 bbls/d in 2006, down from 10,111 bbls/d in 2005 due to natural declines and a glycol gas dehydrator failure in late November 2006 (which shut down production for four weeks and reduced production into February 2007).

In the Company's international operations, produced oil is frequently stored in tanks until there is sufficient volume to be lifted and sold to third parties. Volumes transferred into and out of inventory for the year ended December 31, 2006 have been separately identified in footnote 1 to the Daily Average Production Volumes table above.

Commodity Prices[1]

	2006	2006 vs 2005	2005	2005 vs 2004	2004
		(%)		(%)	
Oil and liquids ($/bbl)					
North America	56.73	8	52.62	25	42.11
United Kingdom	72.11	13	64.07	33	48.21
Scandinavia	73.79	9	67.72	36	49.92
Southeast Asia	74.62	8	68.79	34	51.29
Other	71.65	10	65.40	28	51.17
	69.82	11	62.78	32	47.45
Natural gas ($/mcf)					
North America	7.12	(21)	9.05	33	6.83
United Kingdom	8.50	16	7.30	29	5.57
Scandinavia	4.92	14	4.30	(13)	4.93
Southeast Asia	6.95	9	6.40	35	4.74
	7.20	(13)	8.30	32	6.28
Company $/boe (6 mcf:1 boe)	57.45	1	56.67	33	42.75
Hedging loss (gain) excluded from the above prices					
Oil and liquids ($/bbl)	0.21	(75)	0.85	(84)	5.42
Natural gas ($/mcf)	(0.17)	–	–	(100)	0.07
Total $/boe (6 mcf:1 boe)	(0.37)	(180)	0.46	(85)	3.02
Benchmark prices					
WTI (US$/bbl)	66.25	17	56.70	37	41.40
Dated Brent (US$/bbl)	65.15	19	54.52	43	38.22
NYMEX (US$/mmbtu)	7.26	(15)	8.55	40	6.09
AECO (C$/Gj)	6.62	(18)	8.04	25	6.44
US$/C$ exchange rate	0.88	6	0.83	8	0.77
C$/£ exchange rate	2.09	(5)	2.21	(7)	2.38

1 Prices exclude gains or losses related to hedging activities and do not include synthetic oil.

World oil prices were volatile during 2006, reaching new record levels at mid-year before dropping off in the latter part of the year, with WTI averaging US$66.25/bbl, up 17% over the 2005 average of US$56.70/bbl. North American natural gas prices decreased from 2005 with the NYMEX and AECO benchmark prices down 15% and 18%, respectively.

More than 90% of the Company's revenues are either received in US$ or are closely referenced to US$. The Company converts these revenues to C$ for reporting purposes. The 6% strengthening of the C$ against the US$ reduced Talisman's reported oil and liquids price by $4.78/bbl to $69.82/bbl, an 11% increase over 2005.

Talisman's average natural gas price in North America decreased 21% to $7.12/mcf. The strengthening of the C$ during 2006 reduced Talisman's reported North America natural gas price by $0.49/mcf. Sales from Malaysia/Vietnam, where prices are referenced to the Singapore fuel oil spot market, averaged $4.72/mcf in 2006. Gas production from Malaysia/Vietnam was down 18% from 2005 and accounted for 30% of Southeast Asia gas production during the year. A large portion of Corridor gas production, which represented approximately 64% of the Company's 2006 gas sales in Southeast Asia, is exchanged for Duri crude oil on an energy equivalence basis and is sold with payment in US$ and averaged $8.36/mcf.

The Company's average sales prices are before a net hedging loss on oil of $20 million, or $0.21/bbl, and net hedging gains on natural gas of $86 million, or $0.17/mcf (combined gain of $66 million or $0.37/boe). The physical and financial commodity price contracts outstanding at year-end are disclosed in notes 11 and 12 to the Consolidated Financial Statements with additional discussion in the MD&A section entitled Derivative Financial Instruments and Commodity Sales Contracts. Additional discussion of the expected impact of commodity price contracts on the Company's 2007 results can be found in the Outlook for 2007 section of this MD&A. The Company's accounting policy with respect to derivative financial instruments and commodity contracts is disclosed in note 1(k) to the Consolidated Financial Statements.

Royalties

	2006		2005		2004	
	Rates (%)	**$ millions**	Rates (%)	$ millions	Rates (%)	$ millions
Oil and liquids						
North America	**21**	**210**	21	200	20	160
United Kingdom	**1**	**1**	1	10	1	2
Scandinavia	**–**	**4**	–	–	–	1
Southeast Asia	**43**	**598**	40	351	41	277
Other	**31**	**165**	30	170	38	97
	16	**978**	14	731	14	537
Natural gas						
North America	**18**	**422**	20	583	19	407
United Kingdom	**5**	**4**	7	–	8	1
Southeast Asia	**27**	**199**	30	202	25	114
	18	**625**	21	785	19	522
Total	**17**	**1,603**	17	1,516	16	1,059

The consolidated royalty expense in 2006 was $1,603 million, an increase of $87 million (6%) from $1,516 million in 2005, as a result of higher world prices, increased oil volumes and rate increases for oil in Southeast Asia, partially offset by reduced North America natural gas prices. The Company's oil and liquids royalty rate increased to 16%, while the amount of royalties paid increased by 34% to $978 million. This increase is due primarily to a combination of higher prices and production increases in Southeast Asia. Natural gas royalties for 2006 decreased 21% to $625 million due principally to lower prices and rates in North America.

In North America, natural gas royalties fell 28% to $422 million, averaging 18%, down from 20% in 2005. This decrease in expense reflects a 21% drop in realized unit prices, partially offset by a 1% increase in production.

Oil and liquids royalties in Southeast Asia increased 70% to $598 million due to increases in both prices and production volumes. Malaysia/Vietnam oil royalties are tied to production, price and cost levels and averaged 49% in 2006, up from 37% last year, as both PM-3 CAA and PM-305 fully recovered past oil cost pools. This royalty rate will continue to fluctuate as costs are incurred and recovered. Based on current forecasts of production, prices and spending, the rate is expected to decrease to approximately 41% in 2007. In Southeast Asia, the natural gas royalty rates fell as a result of additional spending at Corridor, which increased gas cost recovery pools. Corridor's natural gas royalty rate averaged 27% during 2006, compared to 32% in the prior year due to an increase in the cost recovery shield. The Southeast Asia gas royalty rate was also impacted by lower Malaysia/Vietnam natural gas volumes, which have a royalty rate of 24%. This royalty rate is expected to continue until the Malaysia/Vietnam gas cost pools are recovered in 2011, based on current forecasts of production, prices and spending.

In Other, the oil royalty expense decreased from $170 million to $165 million as production decreased 15% from last year while the rate increased from 30% last year to 31% in 2006.

Effective August 1, 2006, the Government of Algeria implemented a new tax on exceptional profits. The calculation of such tax is applicable when the monthly average Brent crude oil price exceeds US$30/bbl and is dependent on the terms of the contract for the exploration and production of hydrocarbons. Implementation of the new tax is in process and the 2006 estimated impact to the Company is $3 million, which has been classified as additional royalty expense. The future impact of such tax is not expected to be material.

Unit Operating Expenses

	2006	2006 vs 2005	2005	2005 vs 2004	2004
		(%)		(%)	
Oil and liquids ($/bbl)					
North America	**8.57**	**18**	7.24	7	6.75
United Kingdom[1]	**19.83**	**19**	16.67	32	12.64
Scandinavia	**22.42**	**18**	18.98	(26)	25.73
Southeast Asia	**6.63**	**48**	4.48	(20)	5.57
Other	**4.99**	**28**	3.89	11	3.51
	14.11	**19**	11.81	14	10.32
Natural gas ($/mcf)					
North America	**1.07**	**19**	0.90	14	0.79
United Kingdom	**0.71**	**(22)**	0.91	2	0.57
Southeast Asia	**0.36**	**20**	0.30	11	0.27
	0.87	**14**	0.76	15	0.66
Company ($/boe)	**9.98**	**19**	8.41	16	7.26

1 In 2005, certain UK pipeline expenses were recharacterized and included in the calculation of UK oil and liquids unit operating costs to better match the costs with the underlying activity. Previously, these costs were included in pipeline operating expenses and not included in the calculation of unit operating costs. For the comparative 2004 period, $35 million of expenses were recharacterized in the same fashion. Total operating expenses remained unchanged.

Total Operating Expenses

(millions of C$)	2006	2005	2004
Oil and liquids			
North America	**150**	132	124
United Kingdom[1]	**616**	589	533
Scandinavia	**259**	180	55
Southeast Asia	**122**	56	73
Other	**36**	35	17
	1,183	992	802
Natural gas			
North America	**347**	284	240
United Kingdom	**7**	10	6
Southeast Asia	**39**	31	25
	393	325	271
	1,576	1,317	1,073
Pipeline[1]	**75**	21	18
Total	**1,651**	1,338	1,091

1 In 2005, certain UK pipeline expenses were recharacterized and included in the calculation of UK oil and liquids unit operating costs to better match the costs with the underlying activity. Previously, these costs were included in pipeline operating expenses and not included in the calculation of unit operating costs. For the comparative 2004 period, $35 million of expenses were recharacterized in the same fashion. Total operating expenses remained unchanged.

Total operating expenses for the Company during 2006 were $1.7 billion, 23% higher than last year. On a per unit basis, oil and liquids costs increased 19% to $14.11/bbl and natural gas costs averaged $0.87/mcf, a 14% increase from 2005.

North America oil and liquids operating costs were higher during 2006 with increases in power, maintenance and well workover costs. Unit operating costs for natural gas increased as a result of higher third party processing fees, maintenance, power and well workover costs, partially offset by lower unit operating costs ($0.34/mcf) in Appalachia.

In 2006, UK operating expenses were up $24 million, or 4% over last year, due in part to acquisitions, partially offset by a 5% strengthening in the C$ against the UK£. Increased costs for oil reflected higher charges for fuel, power, maintenance and turnarounds.

Operating costs in Scandinavia increased $79 million to $259 million, reflecting increased production as a result of the prior year's acquisitions and increased well workovers at Gyda. Production declines at Varg, which has relatively fixed costs, increased per unit costs.

In Southeast Asia, unit operating costs increased 52% to $4.47/boe. Assets acquired in 2005 in Australia, SE Sumatra and Offshore NW Java accounted for 64% of the total increase in operating costs of $74 million over 2005, to $161 million. A full year of production from the South Angsi PM-305 field (onstream in mid-August of 2005) and the startup of the Naga Kecil well in PM-314 in July 2006 increased oil operating costs by $10 million. At PM-3 CAA, higher expenditures associated with maintenance, health, safety and environment (HSE) and well intervention work increased costs by $10 million over 2005. Indonesia unit costs increased, reflecting increased production from SE Sumatra, where costs averaged

$14.81/bbl. Indonesia gas sales represented 70% of the total for Southeast Asia versus 62% in 2005, and unit costs increased from $0.32/mcf to $0.38/mcf in 2006. Malaysia/Vietnam gas unit costs averaged $0.31/mcf as production for 2006 was 87 mmcf/d, down from 107 mmcf/d in 2005.

Other operating expenses increased 3% to $36 million. On a per unit basis, operating costs also increased, reflecting the impact of increased costs and reduced production from unplanned shut downs in the Greater MLN fields in Algeria and in Trinidad and Tobago.

Transportation Expenses

	2006		2005		2004	
	$/bbl	**$ millions**	$/bbl	$ millions	$/bbl	$ millions
Oil and liquids						
North America	**0.57**	**11**	0.50	11	0.49	10
United Kingdom	**1.52**	**46**	1.21	36	1.20	45
Scandinavia	**1.80**	**21**	1.11	10	0.60	1
Southeast Asia	**0.27**	**5**	0.09	1	0.23	3
Other	**0.94**	**7**	1.00	9	1.76	9
	$/mcf		$/mcf		$/mcf	
Natural gas						
North America	**0.19**	**62**	0.19	64	0.20	65
United Kingdom	**0.33**	**8**	0.42	7	0.28	2
Scandinavia	**1.10**	**6**	1.48	5	2.39	–
Southeast Asia	**0.38**	**41**	0.41	42	0.41	39
		207		185		174

During 2006, transportation expenses increased $22 million or 12% over 2005, primarily due to increased volumes acquired at Brage and Veslefrikk in Scandinavia, where transportation expenses averaged $2.36/boe, and due to increased volumes acquired at Montrose/Arbroath in the UK.

Unit Depreciation, Depletion and Amortization Expense (Includes accretion of Asset Retirement Obligations (ARO))

($/boe)	**2006**	**2006 vs 2005**	2005	2005 vs 2004	2004
		(%)		(%)	
North America	**14.18**	**13**	12.57	20	10.49
United Kingdom	**12.60**	**14**	11.07	(10)	12.30
Scandinavia	**19.78**	**19**	16.65	(12)	18.96
Southeast Asia	**6.17**	**28**	4.83	(20)	6.02
Other	**9.17**	**(2)**	9.37	54	6.07
	12.26	**13**	10.81	7	10.09

Total Depreciation, Depletion and Amortization Expense (Includes accretion of ARO)

(millions of C$)	**2006**	2005	2004
North America	**1,024**	908	741
United Kingdom	**440**	397	489
Scandinavia	**248**	157	45
Southeast Asia	**224**	144	174
Other	**69**	83	30
	2,005	1,689	1,479

The Company's 2006 DD&A expense increased $316 million, or 19%, to $2 billion, with a per unit rate of $12.26/boe ($10.81/boe in 2005) due to recently acquired assets and high levels of capital spending. DD&A rates in North America increased to $14.18/boe, primarily due to higher drilling costs, increased capital expenditures on infrastructure projects as well as increased land amortization costs. In North America, total DD&A expense increased 13% to $1,024 million. In the UK, total DD&A expense increased by 11% to $440 million, as DD&A rates increased 14% to $12.60/boe, but were partially offset by a 3% reduction in boe production.

In Scandinavia, total expense increased by $91 million to $248 million, as DD&A rates increased 19% to $19.78/boe, combined with a 28% increase in boe production. Total DD&A expense for Southeast Asia increased by $80 million, or 56%, to $224 million due to the impact of a 28% increase in the rate to $6.17/boe and a 21% increase in boe production. Total Other DD&A expense decreased by 17% to $69 million, primarily as a result of a decrease in production.

For additional information relating to DD&A, refer to the MD&A section entitled Application of Critical Accounting Policies and the Use of Estimates and to notes 5 and 6 to the Consolidated Financial Statements.

Dry Hole Expense

(millions of C$)	**2006**	2005	2004
North America	**135**	122	147
United Kingdom	**26**	38	109
Scandinavia	**11**	15	–
Southeast Asia	**15**	11	25
Other[1]	**109**	55	30
	296	241	311

1 In 2006, Other includes Trinidad and Tobago, Colombia, Qatar, Peru and Gabon.

During 2006, the Company incurred dry hole expense of $296 million, $55 million higher than in the previous year. In North America, dry hole expense was $135 million. In the UK, a total of three wells were expensed for a total of $26 million. The Company also wrote off one well in Scandinavia, two wells in Southeast Asia and seven wells in the rest of the world.

Under the successful efforts method of accounting for oil and gas activities, the costs of unsuccessful and non-commercial exploration wells are written off to dry hole expense in the year such determination is made. Until such determination is made, the costs are included in non-depleted capital. At year-end, $769 million of costs relating to exploration wells were included in non-depleted capital and not subject to DD&A, pending final determination (2005 – $450 million; 2004 – $284 million). The majority of the related wells were drilled in 2006.

Exploration Expense

(millions of C$)	**2006**	2005	2004
North America[1]	**168**	143	132
United Kingdom	**25**	29	24
Scandinavia	**30**	24	4
Southeast Asia	**22**	40	20
Other[1]	**73**	39	58
	318	275	238

1 Alaska has been reclassified from Other to North America.

Exploration expense consists of geological and geophysical costs, seismic, non-producing land lease rentals and indirect exploration expenses. These costs are expensed as incurred under the successful efforts method of accounting. The majority of the $43 million increase to $318 million in 2006 relates to increased exploration activity in North America and other potential growth areas.

Corporate and Other

(millions of C$)	**2006**	2005	2004
General and administrative (G&A) expense	**233**	201	183
Interest expense	**166**	163	173
Capitalized interest	**72**	19	13
Stock-based compensation	**51**	633	171
Other revenue	**119**	112	80
Other expense	**(29)**	39	89

G&A expense increased due to additional personnel, salary increases and higher administrative costs. On a unit basis, G&A was $1.31/boe (2005 – $1.17/boe; 2004 – $1.14/boe).

The sum of interest on long-term debt and capitalized interest was $238 million during 2006, up from $182 million in 2005 on higher debt levels in the current year. Interest capitalized in 2006 is primarily associated with the Tweedsmuir development project in the UK, which is scheduled to come on production early in the second quarter of 2007. In addition, interest costs of $18 million in 2006, $3 million in 2005 and nil in 2004, have been allocated to discontinued operations (see note 2 to the Consolidated Financial Statements).

Other revenue includes pipeline and custom treating revenues of $103 million for 2006, compared to $88 million for 2005. Other expense during 2006 included the gain on sale of a royalty interest in an undeveloped lease of $108 million, partially offset by foreign exchange losses of $24 million and costs related to the Beatrice Windfarm of $22 million.

Stock-Based Compensation

Stock-based compensation expense relates to the appreciated value of the Company's outstanding stock options and cash units at December 31, 2006. The Company's stock-based compensation expense is based on the difference between the Company's share price and its stock options, or cash units exercise price. $51 million was expensed in 2006. The Company paid cash of $159 million ($153 million in 2005) to employees in settlement of fully accrued option liabilities for options exercised. Comparatively, during 2005 the 90% increase in the Company's share price resulted in an expense of $633 million. Over the course of the year, the average exercise price of all outstanding options increased from $8.71 per share to $10.79 per share, with a total of 63.9 million options outstanding at December 31, 2006 (see note 8 to the Consolidated Financial Statements).

The Company's stock option plans provide employees and directors who hold stock options with the choice upon exercise to purchase a share of the Company at the stated exercise price or to receive a cash payment in exchange for surrendering the option. The cash payment is equal to the appreciated value of the stock option as determined based on the difference between the option's exercise price and the approximate share price at the time of surrender. The cash payment alternative is expected to result in reduced shareholder dilution in the future as it is anticipated that most holders of the stock options (now and in the future) will elect to take a cash payment. Such cash payments made by the Company to stock option holders are deductible by the Company for income tax purposes, making these plans more cost-effective.

Since the introduction of the cash feature, approximately 97% of options that have been exercised have been exercised for cash, resulting in reduced dilution of shares.

Additional stock-based compensation expense or recovery in future periods is dependent on the movement of the Company's share price and the number of outstanding options and cash units.

Income Taxes

The Company's effective income tax rate for 2006, after deducting PRT, was 47%, compared to 45% in 2005 and 35% in 2004. A number of events in the past three years have affected the Company's effective tax rates, including tax rate increases in the UK, tax rate reductions in Canada and acquisitions of producing assets in Norway last year.

Effective Income Tax Rate

(millions of C$)	**2006**	2005	2004
Income from continuing operations before tax	**3,046**	2,643	931
Less PRT			
Current	**256**	147	124
Future	**34**	37	4
	290	184	128
	2,756	2,459	803
Income tax expense/(recovery)			
Current	**752**	978	427
Future	**552**	127	(143)
	1,304	1,105	284
Effective income tax rate (%)	**47**	45	35

In 2006, future tax expense increased $425 million, to $552 million, as the Company recorded a $325 million charge related to the income tax rate increase on petroleum profits from 40% to 50% in the UK, partially offset by a recovery of future taxes of $178 million related to Canadian federal and provincial tax rate reductions and $34 million in the UK related to the deferral of 2005 capital expenditure claims to 2006 and 2007 for tax purposes.

A normalized effective tax rate after removing the impact of the UK and Canadian tax rate changes and the tax on unrealized foreign exchange gains on foreign denominated debt would have been 44% in 2006, 43% in 2005 and 36% in 2004. The increase in the 2006 effective tax rate results, in part, from a higher tax rate in the UK. Foreign exchange rate fluctuations over the past several years have resulted in taxes on gains related to inter-company loans and non-C$ denominated debt, for which there is no corresponding component of the unrealized gain reflected in income before taxes. See note 15 to the Consolidated Financial Statements for additional information on the Company's income taxes.

Current income tax expense decreased to $752 million in 2006, due primarily to higher capital allowances in the UK and lower US charges due to reduced natural gas prices.

The UK government levies PRT on North Sea fields that received development approval before April 1993, based on gross profit after allowable deductions, including capital and operating expenditures. PRT, which is deductible for purposes of calculating corporate income tax, increased as a result of both higher prices and volumes on fields in the UK subject to PRT. In addition to the UK, PRT is levied in Australia and other countries, where $66 million (nil in 2005) and $16 million ($14 million in 2005), respectively, were recorded during 2006.

Capital Spending[1,2]

(millions of C$)	2006	2006 vs 2005	2005	2005 vs 2004	2004
		(%)		(%)	
North America	2,420	49	1,623	16	1,457
United Kingdom	1,208	38	875	96	387
Scandinavia	332	129	145	202	108
Southeast Asia	331	9	305	20	255
Other[3]	249	35	184	(43)	264
Corporate, IS and Administrative	36	29	28	8	26
	4,576	45	3,160	27	2,497
Acquisitions[4]	204	(62)	536	62	330
Dispositions	(119)	441	(22)	(75)	(88)
Discontinued operations[5]	(715)	(1,621)	47	(30)	67
Total	3,946	6	3,721	33	2,806

1 Excludes corporate acquisitions.

2 Includes interest costs that are capitalized on major development projects until facilities are completed and ready for use.

3 Other includes Algeria, Tunisia, Trinidad and Tobago, Colombia, Peru, Qatar and Gabon.

4 Includes the Auk/Fulmar assets acquired in the UK for $181 million in 2006.

5 2006 is net of $753 million ($361 in North America and $392 in the UK) in proceeds on sale of assets.

The Company spent $3 billion on development and $1.5 billion on exploration primarily to pursue additional deep gas prospects in North America and progress development opportunities in the UK and Scandinavia sectors of the North Sea and in Southeast Asia. Actual capital expenditures during 2006 differed from the amount of capital expenditures in the 2006 Outlook of the 2005 MD&A, primarily as a result of the following:

- North America – increased spending on land acreage acquisitions in the Outer Foothills region;
- Scandinavia – due to lower spending as a result of delays in both development and exploration wells into 2007; and
- Southeast Asia – delay in the Northern Fields development.

During 2006, natural gas continued to be the focus of the Company's capital investment activities in North America, supplemented by low risk oil projects. Of the $2.4 billion of capital spending in North America, $1.1 billion related to exploration activities and development accounted for $1.3 billion. The Company's North America drilling program had a 98% success rate, resulting in 496 gas wells and 194 oil wells. Exploration and development spending was concentrated in the predominantly gas producing core areas in the Alberta Foothills, Greater Arch, Deep Basin, Monkman/BC Foothills, Edson and Appalachia regions.

Total capital spending in the UK was $1.2 billion, including $138 million for exploration and $1.1 billion for development. Major areas of activity included the ongoing development of the Tweedsmuir, Blane, Wood, Enoch and Affleck projects and the drilling and completion activity within the Orion, Tartan and Claymore fields. A total of 24 successful development wells were drilled in 2006, as well as six exploration wells.

In Scandinavia, total expenditures were $332 million and included $102 million on exploration and $230 million on development. In addition to project development costs at Rev of $27 million, five successful development wells were drilled during 2006, as well as two exploration wells.

Malaysia/Vietnam accounted for $241 million of the $331 million of total capital spending in Southeast Asia, with the completion and start up of the Bunga Tulip development and the ongoing development of the Northern Fields in PM-3 CAA. Talisman participated in nine successful development wells and one successful exploration well in Malaysia/Vietnam during 2006. A total of $76 million was spent in Indonesia, primarily on the Suban Phase 2 development to supply natural gas to West Java in 2007. A total of 19 successful development wells and two successful exploration wells were drilled in Indonesia.

Capital spending in Other included $74 million in North Africa, with Talisman participating in 13 successful exploration and development wells in Algeria and two wells in Tunisia. In Trinidad and Tobago, a total of $84 million was spent, primarily on Block 2c development drilling and Eastern Block onshore exploration activity. A total of four development wells and four exploration wells were drilled in Trinidad and Tobago. During 2006, the Company spent $91 million in the rest of the world, including $22 million in Qatar on exploration drilling.

Information related to details and funding of the 2007 capital expenditures program is included in the Outlook for 2007 section of this MD&A.

Reserves Replacement

Talisman drilled 773 successful wells in 2006 and increased its total proved reserves by 2% to 1,667 mmboe at the end of 2006. The Company replaced 116% of conventional production from all sources and 116% before acquisitions and divestitures. Drilling related reserve additions and revisions to previous estimates totaled 202 mmboe. Talisman also acquired a net 1 mmboe of proved reserves. Talisman's net proved reserves increased by 4% to 1,367 mmboe.

Proved oil and liquids reserves increased 4% to 767 mmbbls. Talisman added a total of 125 mmbbls from all sources, including 62 mmbbls in the UK, 29 mmbbls in Scandinavia, 7 mmbbls in Southeast Asia, 15 mmbbls in Other and 12 mmbbls in North America. The majority (91%) of these

reserves additions were through discoveries, additions, extensions and revisions. The UK (50%) and North America (22%) account for the majority of Talisman's year-end oil and liquids reserves. These are predominantly high quality crude oil and natural gas liquids. Talisman has virtually no conventional heavy oil reserves.

Talisman's proved natural gas reserves decreased by 0.3% in 2006, totaling 5.4 tcf at year-end. Talisman's North American natural gas reserves were 2.8 tcf at year-end, up 4% from the previous year. In North America, the Company added 458 bcf through the drill bit (138% of production) and upward revisions to existing reserves (13 bcf) offset by natural gas production (332 bcf) and minor net dispositions (41 bcf). These numbers include Fortuna's natural gas reserves in the northeastern US, which totaled 144 bcf at year-end, with the addition of 43 bcf through drilling activities.

Talisman's proved international natural gas reserves at year-end were 2.6 tcf and accounted for 48% of the Company's total proved natural gas reserves, with Southeast Asia constituting 39% of total worldwide proved natural gas reserves.

Over the past three years, Talisman has added 670 mmboe of proved reserves through discoveries, additions and extensions (including revisions) and acquired 139 mmboe of proved reserves, net of dispositions. Approximately 86% of Talisman's proved reserves have been independently audited over the past four years.

The reserves replacement ratio of 116% (before acquisitions and dispositions) was calculated by dividing the sum of changes (revisions of estimates, improved recovery and discoveries) to estimated proved oil and gas reserves during 2006 by the Company's 2006 conventional production. The reserves replacement ratio of 116% (after acquisitions and dispositions) was calculated by dividing the sum of changes (revisions of estimates, improved recovery, discoveries, acquisitions and dispositions) to estimated proved oil and gas reserves during 2006 by the Company's 2006 conventional production.

	Oil & Natural Gas Liquids	**Natural Gas**	**BOE**
	(mmbbls)	(bcf)	(mm)
December 31, 2005	736.1	5,416.6	1,638.8
Discoveries, extensions and additions	80.0	564.1	174.1
Net acquisitions	10.6	(61.0)	0.4
Revisions	34.0	(33.8)	28.4
Production	(94.2)	(483.0)	(174.7)
Total Proved, December 31, 2006	766.5	5,402.9	1,667.0
Total Probable, December 31, 2006	544.0	2,650.0	985.8

The Company's management uses reserves replacement ratios, as described above, as an indicator of the Company's ability to replenish annual production volumes and grow its reserves. It should be noted that a reserves replacement ratio is a statistical indicator that has limitations. As an annual measure, the ratio is limited because it typically varies widely based on the extent and timing of new discoveries, project sanctioning and property acquisitions. Its predictive and comparative value is also limited for the same reasons. In addition, since the ratio does not take into account the cost, value or timing of future production of new reserves, it cannot be used as a measure of value creation.

Liquidity and Capital Resources

Talisman's long-term debt at year-end was $4.6 billion ($4.5 billion, net of cash), up from $4.3 billion at the end of last year. During 2006, the Company generated $4.4 billion of cash provided by operating activities and spent $4.5 billion on exploration and development and received divestiture proceeds net of acquisitions of $664 million. In addition, the Company repurchased approximately 35 million common shares for $659 million and paid dividends of $163 million. At year-end, the Company had $494 million drawn against its available $2,018 million bank lines of credit. In December 2005, the Company filed as part of a registration statement, a debt shelf prospectus in the US under the Multi-Jurisdictional Disclosure System under which it is permitted to issue up to US$2 billion of debt securities in the US public debt market, and simultaneously filed a medium term note shelf prospectus in Canada under which it is permitted to issue up to $1 billion of medium term note securities in the Canadian public debt market. At December 31, 2006, US$900 million remained unissued under the US shelf prospectus due to expire in January 2008 and $650 million remained unissued under the Canadian medium term note shelf prospectus due to expire in January 2008.

In March 2006, the Company renewed its Normal Course Issuer Bid (NCIB) to permit the purchase of up to 54,940,200 common shares, representing 5% of the total common shares outstanding at the time of the renewal. The NCIB expires in March 2007 and the Company has received Board of Directors' approval to renew the NCIB for another year. In December 2006, Talisman amended the current NCIB. The amendment increases the maximum number of common shares that Talisman may purchase over the 12-month period of the NCIB ending March 27, 2007 to the maximum permitted by the TSX, being 10% of the public float on March 22, 2006. The amended maximum is 109,767,000 common shares. The Company repurchased 35,294,400 common shares under its NCIB during 2006 for a total of $659 million ($18.67/share). Subsequent to year-end, Talisman repurchased 15,513,400 shares for a total of $299 million, leaving a maximum of 58,959,200 shares available for repurchase prior to the expiry of the NCIB.

In the first quarter of 2006, Talisman completed a US$500 million offering of 5.85% notes due February 1, 2037 and a $350 million offering of 4.44% notes due January 27, 2011. Interest on both notes is paid semi-annually. The $350 million offering was immediately swapped into

US$304 million 5.054% debt. The proceeds from these note offerings were used to repay a portion of the bridge financing entered into to finance the acquisition of Paladin in 2005. In the fourth quarter of 2006, Talisman completed a US$600 million offering of 6.25% notes due February 1, 2038. Interest on the notes is paid semi-annually. Each of these offerings was completed pursuant to the shelf prospectuses described above.

At December 31, 2006, the Company had current assets of $2.1 billion and current liabilities of $3.2 billion, including assets and liabilities of discontinued operations. Working capital movements are difficult to predict, but management does not anticipate a substantial change during 2007.

In connection with the funding of the acquisition of Paladin in 2005, the Company arranged a $2,605 million (£1,300 million), unsecured non-revolving credit facility (bridge financing facility). During 2006, the amounts outstanding thereunder were repaid in full and the credit facility was cancelled.

Two common share dividends were paid in 2006 for a total of $163 million (an aggregate of $0.15/share). The Company's dividend is determined semi-annually by the Board of Directors. At year-end, there were 1,064 million common shares outstanding, down from 1,099 million at December 31, 2005. As at March 1, 2007, there were 1,049 million common shares outstanding, as well as 61.1 million stock options outstanding.

At the end of 2006, Talisman's ratio of debt-to-cash provided by operating activities was 1.04:1 and its ratio of debt-to-debt plus equity was 38%.

For additional information regarding the Company's liquidity and capital resources, refer to note 7 to the Consolidated Financial Statements. In addition, refer to the Sensitivities table included in the Outlook for 2007 Section of this MD&A for possible 2007 impacts of various factors on the Company's estimated 2007 net income and cash provided by operating activities.

Talisman's investment grade senior unsecured long-term debt credit ratings from Dominion Bond Rating Service (DBRS), Moody's Investors Services, Inc. (Moody's) and Standard & Poor's (S&P) are BBB (high), Baa2 (stable) and BBB+, respectively. S&P has assigned a rating of BBB+ (with a negative outlook) to Talisman.

Commitments and Off-Balance Sheet Arrangements

As part of its normal business, the Company has entered into arrangements and incurred obligations that will impact the Company's future operations and liquidity, some of which are reflected as liabilities in the Consolidated Financial Statements at year-end. The principal commitments of the Company are in the form of debt repayments; abandonment obligations; lease commitments relating to corporate offices and ocean-going vessels; firm commitments for gathering, processing and transmission services; minimum work commitments under various international agreements; other service contracts and fixed price commodity sales contracts.

Additional disclosure of the Company's debt repayment obligations and significant commitments can be found in notes 7 and 12 to the Consolidated Financial Statements. A discussion of the Company's derivative financial instruments and commodity sales contracts can be found in the next section of this MD&A.

The following table includes the Company's expected future payment commitments as at December 31, 2006 and estimated timing of such payments.

			Payments due by period[1,2] (millions of C$)					
Commitments	Recognized in financial statements	Total	Less than 1 year	1-3 years	4-5 years	6-10 years	11-15 years	After 15 years
Long-term debt	Yes – Liability	4,560	601	314	860	1,007	–	1,778
Abandonment obligations[3]	Yes – Partially accrued as liability	4,600	52	66	39	200	575	3,668
Office leases	No	214	34	56	50	73	1	–
Ocean-going vessel leases	Yes – Partially accrued as liability	486	190	205	64	27	–	–
Transportation and processing commitments	No	1,114	168	189	181	397	140	39
Minimum work commitments[4]	No	502	280	181	41	–	–	–
Other service contracts	No	2,390	897	1,238	231	24	–	–
Stock options and cash units[5]	Yes – Partially accrued as liability	606	514	92	–	–	–	–
Total		14,472	2,736	2,341	1,466	1,728	716	5,485

1 Payments exclude ongoing operating costs related to certain leases, interest on long-term debt and payments made to settle derivative contracts.

2 Payments denominated in foreign currencies have been translated at the December 31, 2006 exchange rate.

3 The abandonment obligation represents management's probability weighted, undiscounted best estimate of the cost and timing of future dismantlement, site restoration and abandonment obligations based on engineering estimates and in accordance with existing legislation and industry practice.

4 Minimum work commitments include contracts awarded for capital projects and those commitments related to exploration or drilling obligations.

5 The liability for stock options and cash units recognized on the balance sheet is based on the Company's year-end stock price and the number of options and cash units outstanding, adjusted for vesting terms. The amount included in this table includes the full value of unvested options and cash units. Timing of payments is based on vesting and expiry. Actual payments are dependent on the Company's stock price at the time of exercise.

Talisman is in negotiations for the construction and long term lease of an offshore production and storage facility for the Talisman operated (70% WI) Yme field in Norway. Upon completion and delivery of the facility in 2009, the joint venture would lease the facility for an initial five year period, however this term can be extended by up to an additional 17 years. Talisman's share of the minimum lease payments over the initial five year period is expected to be approximately $64 million per year, which has not been included in the Estimated Future Minimum Commitments table above. This agreement is currently expected to be signed in late March 2007.

Derivative Financial Instruments and Commodity Sales Contracts

The Company manages its exposure to fluctuations in foreign exchange rates, interest rates and commodity prices in part through the use of derivative financial instruments and commodity sales contracts. The accounting policy with respect to derivative financial instruments and commodity sales contracts is set out in note 1(k) to the Consolidated Financial Statements. Derivative financial instruments and commodity sales contracts outstanding at December 31, 2006, including their respective fair values, are detailed in notes 11 and 12 to the Consolidated Financial Statements.

During 2006, the Company had commodity price derivative financial instruments covering approximately 7,000 bbls/d or 3% of the Company's 2006 worldwide oil and liquids production. This resulted in a net decrease to recorded sales of $20 million (2005 – $77 million decrease; 2004 – $480 million decrease). The company also had natural gas price derivatives and long term fixed price physical sales contracts covering 66 mmcf/d of North American natural gas production, representing 5% of the Company's worldwide gas production, which resulted in an increase in recorded sales of $86 million (nil in both 2005 and 2004). At December 31, 2006, the Company had outstanding commodity price derivative contracts that covered approximately 16,000 bbls/d (13%) of the Company's anticipated 2007 UK oil and liquids production and approximately 10,000 bbls/d (24%) of the anticipated North American oil and liquids production. An additional 119 mmcf/d (14%) of anticipated 2007 North American natural gas production has been committed under commodity price derivative contracts with an additional 13 mmcf/d (1%) committed under long-term fixed price commodity sales contracts. The Company's outstanding commodity price derivative contracts outstanding at December 31, 2006 have been designated as hedges of the Company's anticipated future commodity sales. See notes 11 and 12 to the Consolidated Financial Statements for additional details regarding the contracts outstanding at year-end.

Subsequent to year-end, the Company entered into natural gas derivative contracts priced at AECO in the form of two-way collars covering the period April 1, 2007 to October 31, 2007 for notional volume of 27,523 mcf/d of natural gas with a ceiling of $7.97/mcf and a floor of $7.00/mcf. The Company also entered into AECO fixed-price swaps covering the period April 1, 2007 to October 31, 2007 for a notional volume of 36,697 mcf/d with a fixed price of $7.58/mcf. In addition, the Company entered into fixed-price swaps of UK natural gas prices covering the period from October 1, 2008 to June 30, 2011, for initial notional volumes of 260,000 therms/d declining over the period to a final notional volume of 180,000 therms/d in the second quarter of 2011 with an average fixed price of $0.83/therm. These contracts have not been designated as hedges of the Company's anticipated future commodity sales, and as such are expected to increase the volatility of net income as changes in the fair value of these derivative instruments will be charged to net income.

Also subsequent to year-end, the Company settled a portion of its 2007, ($90.84/$70.00) WTI costless collar covering a notional volume of 10,000 bbls/d for a gain of $40 million, which will be deferred and amortized over the period ending December 31, 2007, the term of the original hedge.

In order to support the Company's investments in natural gas projects outside North America and the North Sea, Talisman has entered into a number of long-term sales contracts. In conjunction with the PM-3 CAA development project, the Company entered into a long-term firm supply contract for approximately 100 mmcf/d, at prices referenced to the Singapore fuel oil spot market. The majority of Talisman's Corridor natural gas production in Indonesia is currently sold to Caltex under long-term sales agreements, with the majority of the natural gas sales exchanged for crude oil on an energy equivalent basis. Sales to Singapore from Corridor are also under long-term sales agreements referenced to the spot price of fuel oil in Singapore. During 2004, the Company signed a long-term contract to sell 2.3 tcf of Corridor natural gas to West Java over a 17-year period, with gas sales commencing in 2007 at a price of US$1.91/mcf, with no associated transportation costs. The Company's share of sales will be approximately 810 bcf based on its 36% interest. The Company anticipates having sufficient production to meet all future delivery commitments.

Effective January 1, 2004, the Company's US$ cross currency and interest rate swap contracts were no longer designated as hedges of the £250 million Eurobond, which resulted in a revaluation of this debt and a deferred gain of $17 million, which is being amortized over the period to 2009. The swap contracts were terminated in 2004 for net cash proceeds of $138 million and resulted in an additional gain of $15 million, which was recognized immediately in income.

In order to hedge a portion of the fair value risk associated with the US$375 million 5.125% notes due 2015, the Company entered into fixed to floating interest rate swap contracts with a total notional amount of US$300 million that expire on May 15, 2015. These swap contracts require Talisman to pay interest at a rate of three-month US$ LIBOR plus 0.433% while receiving payments of 5.125% semi-annually. These contracts have been designated as a hedge of the fair value of a portion (US$300 million) of the total US$375 million notes issued in May 2005.

In conjunction with the C$350 million notes issued during the first quarter of 2006, the Company entered into a cross currency interest rate swap in order to hedge the foreign exchange exposure on this Canadian dollar denominated liability. As a result, the Company is effectively paying interest semi-annually in US dollars at a rate of 5.05% on a notional amount of US$304 million.

The Company has established a system of internal controls to minimize risks associated with its derivatives program and credit risk associated with derivatives counterparties. The Board of Directors has authorized the Company to enter into commodity derivative agreements, which in aggregate do not exceed 40% of total estimated production. From time to time, on certain development projects or asset acquisitions, the Company may mitigate its exposure to financial risks related to commodity price fluctuations, through the use of various financial instruments and physical contracts.

Segmented Results Review of Continuing Operations

Talisman is an independent international upstream oil and gas company whose main business activities include exploration, development, production, transporting and marketing of crude oil, natural gas and natural gas liquids. Note 19 to the Consolidated Financial Statements provides segmented financial information that forms the basis for much of the following discussion and analysis. The Company's operations in 2006 were conducted principally in five geographic segments: North America, United Kingdom, Scandinavia, Southeast Asia, and Other. The North America segment includes operations in Canada and the US. The UK segment includes operations in the United Kingdom and the Netherlands. The Scandinavia segment includes operations in Norway and Denmark. The Southeast Asia segment includes operations in Indonesia, Malaysia, Vietnam and Australia. The Other segment includes operations in Algeria, Tunisia, Trinidad and Tobago as well as other international exploration areas. All activities relate to the exploration, development, production and transportation of oil, liquids and natural gas.

In 2006, Talisman redefined its reporting segments to those described above. In 2005, the UK and Scandinavia were reported in aggregate as the North Sea, Alaska was included in the Other reporting segment and excluded from the North American segment, and operations in North Africa (Algeria, Tunisia) and Trinidad and Tobago were reported as separate segments. The segment entitled Southeast Asia includes Indonesia, Malaysia, Vietnam and Australia for the years ended December 31, 2006 and 2005, but only Indonesia, Malaysia and Vietnam in 2004. Similarly, the segment entitled Other includes both Algeria and Tunisia for the years ended December 31, 2006 and 2005, but only Algeria in 2004 as well as Trinidad and Tobago for 2006 and 2005. Exploration is being advanced in other areas outside the principal geographic segments, including Colombia, Qatar and Peru. All prior periods have been restated to conform to the current presentation. The following is a brief summary of the financial results of each geographic segment. The Company's pre-tax segmented income from continuing operations as discussed below is before corporate general and administration, interest, stock-based compensation, taxes and non-segmented foreign exchange gains and losses. Effective January 1, 2004, with the adoption of the new hedge accounting rules (see notes 1(k) and 11 to the Consolidated Financial Statements), the Company allocates hedging gains and losses on the basis of the percentage of relative hedged production. More detailed analysis of the Company's results can be found after this Segmented Results Review.

North America (Includes Alaska)

During 2006, the North America operations contributed $1.1 billion, or 30%, of the Company's pre-tax segmented income from continuing operations of $3.5 billion, down 27% from $1.5 billion (40% of $3.6 billion) in 2005. Gross sales in North America decreased 15% to $3.3 billion due principally to lower natural gas prices and oil production. North American production from continuing operations averaged 197,800 boe/d, unchanged from 2005, and represented 44% of the Company's total production in 2006. Royalty expense decreased 19% to $632 million due to lower gas prices. North American operating expense increased 20% to $505 million due to higher processing fees, increased well workovers, maintenance and power costs. DD&A increased to $1,024 million, up from $908 million due to higher drilling costs and increased capital expenditures on infrastructure projects. Total exploration and development spending for North America in 2006 was $2.4 billion, up 49% over 2005.

United Kingdom

The UK pre-tax segmented income increased to $1.2 billion and accounted for 34% of the Company's pre-tax segmented income from continuing operations during 2006, up 9% from $1.1 billion in 2005. UK gross sales increased 10% to $2.5 billion due primarily to higher prices. Production from continuing operations averaged 97,500 boe/d, down 3% from 2005, and represented 22% of the Company's total production. Operating expenses increased 12% to $690 million and DD&A expense increased $43 million to $440 million. Royalty expense decreased 50% to $5 million. Dry hole expense decreased from $38 million to $26 million in 2006. Exploration and development spending for the UK was $1.2 billion, up 38% from 2005.

Scandinavia

In Scandinavia, pre-tax segmented income increased 44% to $322 million and accounted for 9% of the Company's pre-tax segmented income from continuing operations during 2006, up from $223 million in 2005. Scandinavia gross sales increased 45% to $890 million due primarily to higher prices and increased production, resulting from acquisitions and development drilling. Production averaged 34,900 boe/d and represented 8% of the Company's total production. This 28% increase in production also contributed to increases in operating expenses of $79 million and DD&A expense of $91 million. Exploration and development spending for Scandinavia was $332 million, up 129% from 2005.

Southeast Asia

Southeast Asia contributed 24% ($853 million) to the Company's pre-tax segmented income from continuing operations in 2006. Gross sales increased 39% to $2.1 billion with increased commodity prices and production. Southeast Asia production averaged 100,200 boe/d, an increase of 21% over 2005 and represented 21% of the Company's total production. Total operating expenses increased 85% from 2005 to $161 million as a result of the increase in production. DD&A expense increased 56% to $224 million. Capital spending for Southeast Asia was $331 million, up 9% from 2005.

Other

The Other reporting segment contributed 2% ($68 million, down 63% from 2005) to the Company's pre-tax segmented income from continuing operations in 2006. Gross sales decreased 7% from 2005 to $539 million as decreased production more than offset higher commodity prices. Production for 2006 averaged 21,600 bbls/d, down 15% from 2005, and represented 5% of the Company's total production in 2006. Operating costs in 2006 remained flat at $36 million. Dry hole costs were $109 million, up from $55 million in 2005. Capital spending was $249 million, up $65 million from 2005.

Summary of Quarterly Results

The following is a summary of quarterly results of the Company for the eight most recently completed quarters:

		Three months ended			
(millions of C$, unless otherwise stated)	**Total Year**	**Dec. 31**	**Sept. 30[1]**	**June 30[1]**	**Mar. 31[1]**
2006					
Gross sales	**9,362**	**2,195**	**2,193**	**2,308**	**2,666**
Total revenue	**7,944**	**1,901**	**1,870**	**1,906**	**2,267**
Net income from continuing operations	**1,452**	**349**	**408**	**552**	**143**
Net income	**2,005**	**598**	**525**	**685**	**197**
Net income available to common shareholders	**2,005**	**598**	**525**	**685**	**197**
Capital expenditures					
Exploration	**1,553**	**372**	**336**	**407**	**438**
Development	**2,987**	**938**	**702**	**590**	**757**
Per common share ($)[5]					
Net income from continuing operations	**1.33**	**0.32**	**0.37**	**0.50**	**0.14**
Diluted net income from continuing operations[2]	**1.29**	**0.32**	**0.36**	**0.49**	**0.13**
Net income	**1.84**	**0.55**	**0.48**	**0.62**	**0.19**
Diluted net income[2]	**1.79**	**0.54**	**0.47**	**0.61**	**0.17**
Daily average production					
Oil and liquids (bbls/d)[3]	**245,806**	**245,772**	**222,052**	**233,717**	**282,379**
Natural gas (mmcf/d)	**1,238**	**1,288**	**1,230**	**1,227**	**1,210**
Continuing operations (mboe/d)	**452**	**461**	**427**	**438**	**484**
Discontinued operations (mboe/d)[4]	**33**	**25**	**33**	**35**	**39**
Total (mboe/d)	**485**	**486**	**460**	**473**	**523**
2005[1]					
Gross sales	8,888	2,682	2,459	1,932	1,815
Total revenue	7,407	2,227	2,044	1,612	1,524
Net income from continuing operations	1,354	463	376	302	213
Net income	1,561	533	430	340	258
Net income available to common shareholders	1,561	533	430	340	258
Capital expenditures					
Exploration	1,084	358	273	216	237
Development	2,048	608	501	439	500
Per common share ($)[5]					
Net income from continuing operations	1.23	0.42	0.34	0.27	0.19
Diluted net income from continuing operations[2]	1.20	0.41	0.33	0.27	0.19
Net income	1.41	0.48	0.39	0.31	0.23
Diluted net income[2]	1.38	0.47	0.38	0.30	0.23
Daily average production					
Oil and liquids (bbls/d)[3]	232,346	273,409	226,982	211,435	216,935
Natural gas (mmcf/d)	1,210	1,218	1,214	1,198	1,208
Continuing operations (mboe/d)	434	476	430	411	418
Discontinued operations (mboe/d)[4]	36	40	31	33	39
Total (mboe/d)	470	516	461	444	457

1 Prior periods have been restated to reflect the impact of discontinued operations. See note 2 to the Consolidated Financial Statements.

2 Diluted net income per common share is calculated using the treasury stock method, which gives effect to the potential dilution that could occur if stock options were exercised in exchange for common shares. However, since inception of the Company's Stock Appreciation Rights Plan, only approximately 3% of stock options have been exercised for common shares and therefore the dilution was insignificant.

3 Includes oil volumes produced into inventory for the years ended December 31, 2006 and 2005 of 4,157 bbls/d and 5,967 bbls/d, respectively.

4 Includes gas acquired for injection and subsequent resale of 18 mmcf/d in 2006, with 14 mmcf/d, 28 mmcf/d, 3 mmcf/d and 27 mmcf/d during each of the quarters ended March, June, September and December, respectively, and 15 mmcf/d in 2005, with 8 mmcf/d, 9 mmcf/d, 18 mmcf/d and 23 mmcf/d during each of the quarters ended March, June, September and December, respectively.

5 All prior periods have been restated to reflect the Company's three-for-one share split in May 2006.

The following discussion highlights some of the more significant factors that impacted net income in the eight most recently completed quarters.

During the fourth quarter of 2006 gross sales increased by $2 million over the previous quarter as the impact of reduced oil prices almost offset the 6% increase in total production. Net income from continuing operations decreased $59 million from the third quarter as increases in charges for dry holes, exploration, stock-based compensation, DD&A and operating costs more than offset the impact of reduced taxes and the gain on sale of a royalty interest in an undeveloped lease.

During the fourth quarter, the Company:

- issued US$600 million of 6.25% notes due February 1, 2038;
- completed the sale of UK assets for proceeds of $392 million resulting in an after tax gain on disposition of $209 million, which is included in results of discontinued operations;
- entered into an agreement to sell its 1.25% indirect interest in Syncrude, which closed in January 2007 for proceeds of $477 million and resulted in an after tax gain of $236 million, which will be recorded in results of discontinued operations during 2007;
- repurchased approximately 26.5 million common shares for $499 million ($18.78/share); and
- amended the current NCIB, increasing the maximum number of common shares that Talisman may purchase to 109,767,000, representing 10% of the public float on March 22, 2006.

During the third quarter of 2006, gross sales decreased by $115 million over the previous quarter due to decreased natural gas prices and reduced production. Net income from continuing operations for the quarter decreased by $144 million, primarily due to the $178 million recovery of future taxes related to Canadian federal and provincial tax rate reductions recorded in the second quarter.

During the second quarter of 2006, gross sales decreased by $358 million over the previous quarter due to decreased production. Net income from continuing operations for the quarter increased by $409 million, primarily due to the impact of a $178 million recovery of future taxes related to Canadian federal and provincial tax rate reductions and the $325 million future tax charge in the first quarter.

In the first quarter of 2006, gross sales decreased by $16 million over the previous quarter. Net income from continuing operations for the quarter decreased by $320 million, primarily due to the impact of a one-time non-cash adjustment of $325 million related to a UK income tax rate increase.

During the fourth quarter of 2005, gross sales rose by $223 million over the previous quarter due to increased natural gas prices in North America and increased production in the North Sea. Net income from continuing operations for the quarter increased by $87 million, as the increased revenue combined with reduced stock-based compensation charges more than offset the impact of increases in operating, DD&A, royalty and tax expenses.

During the third quarter of 2005, higher commodity prices and production increased gross sales by $527 million. Net income from continuing operations for the quarter increased by $74 million, as the increased revenue more than offset the impact of increases in stock-based compensation, royalty and tax expenses.

In the second quarter of 2005, gross sales rose due to increased commodity prices, which were partially offset by reduced production. Net income from continuing operations increased in the quarter as higher revenue combined with reductions in stock-based compensation charges, transportation and other expenses more than offset the impact of increases in operating costs, royalties, taxes, dry hole costs and exploration expenses.

During the first quarter of 2005, gross sales rose over the last quarter of 2004, as a result of higher commodity prices, increased production and reduced hedging losses. Net income from continuing operations increased in the quarter as increased revenue combined with reductions in dry hole costs, exploration expenses, impairments, DD&A and G&A more than offset the impact of increases in stock-based compensation charges, royalties, operating costs and taxes.

Application of Critical Accounting Policies and the Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported assets and liabilities, disclosures of contingencies and revenues and expenses. Management is also required to adopt accounting policies that require the use of significant estimates. Actual results could differ materially from those estimates. A summary of significant accounting policies adopted by Talisman can be found in note 1 to the Consolidated Financial Statements. In assisting the Company's Audit Committee to fulfill its financial statement oversight role, management regularly meets with the Committee to review the Company's significant accounting policies, estimates and any significant changes thereto, including those discussed below.

Management believes the most critical accounting policies, including judgments in their application, which may have an impact on the Company's financial results, relate to the accounting for property, plant and equipment, asset retirement obligations and goodwill. The rate at which the Company's assets are depreciated or otherwise written off and the asset retirement liability provided for, with the associated accretion expensed to the income statement, are subject to a number of judgments about future events, many of which are beyond management's control. Reserves recognition is central to much of the accounting for an oil and gas company as described below.

Reserves Recognition

Underpinning Talisman's oil and gas assets and goodwill are its oil and gas reserves. Detailed rules and industry practice, to which Talisman adheres, have been developed to provide uniform reserves recognition criteria. However, the process of estimating oil and gas reserves is inherently

judgmental. There are two principal sources of uncertainty: technical and commercial. Technical reserves estimates are made using available geological and reservoir data as well as production performance data. As new data become available, including actual reservoir performance, reserves estimates may change. Reserves can also be classified as proved or probable with decreasing levels of certainty as to the likelihood that the reserves will be ultimately produced.

Reserves recognition is also impacted by economic considerations. In order for reserves to be recognized, they must be reasonably certain of being produced under existing economic and operating conditions, which is viewed as being at year-end commodity prices with a cost profile based on current operations. In particular, in international operations, consideration includes the status of field development planning and gas sales contracts. As economic conditions change, primarily as a result of changes in commodity prices and, to a lesser extent, operating and capital costs, marginally profitable production, typically experienced in the later years of a field's life cycle, may be added to reserves or, conversely, may no longer qualify for reserves recognition.

The Company's reserves and revisions to those reserves, although not separately reported on the Company's balance sheet or income statement, impact the Company's reported net income through the depletion, depreciation and amortization of the Company's property, plant and equipment (PP&E), asset and goodwill impairments and the provision for future asset retirement obligations.

The Reserves Committee of Talisman's Board of Directors reviews the Company's reserves booking process and related public disclosures and the report of the internal qualified reserves evaluator (IQRE). The primary responsibilities of the Reserves Committee of the Board of Directors include, among other things, reviewing the Company's reserves booking process and recommending to the Board of Directors, the Company's annual statement of reserves data and other oil and gas information. The IQRE reports the Company's annual reserves data to the Reserves Committee and delivers a regulatory certificate regarding proved reserves and their related future net cash flows.

Depreciation, Depletion and Amortization Expense (DD&A)

A significant portion of the Company's PP&E is amortized based on the unit of production method with the remaining assets being amortized equally over their expected useful lives. The unit of production method attempts to amortize the asset's cost over its proved oil and gas reserves base. Accordingly, revisions to reserves or changes to management's view as to the operational life span of an asset will impact the Company's future DD&A expense.

As outlined in the Company's DD&A accounting policy and PP&E notes (notes 1(d) and 5 to the Consolidated Financial Statements), $4.9 billion (2005 – $3.2 billion) of the Company's PP&E is not currently subject to DD&A. Approximately 21% of these costs relate to the Tweedsmuir development project ($1 billion) in the UK, due to come on production early in the second quarter of 2007, at which time amortization will commence. The remainder of the $3.9 billion of non-depleted capital relates to the costs of other development projects ($1.6 billion), which will be amortized when production commences, the costs of acquired unproved reserves ($1.5 billion) and incomplete drilling activities, including those wells under evaluation or awaiting commencement of production ($769 million). Uncertainty exists with the treatment of these costs. For example, if the evaluation of the acquired probable reserves or recently drilled exploration wells was determined to be unsuccessful, the associated capitalized costs would be expensed in the year such determination is made, except that, in the case of acquired probable reserves associated with producing fields, these costs would be amortized over the reserve base of the associated producing field. Accordingly, the rate at which these costs are written off depends on management's view of the likelihood of the existence of economically producible reserves.

Successful Efforts Accounting

Talisman uses the successful efforts method to account for its oil and gas exploration and development costs. Acquisition costs and development costs are capitalized and depleted using the unit of production method. Costs of drilling unsuccessful exploration wells (dry hole costs) and all other exploration costs, including geological and geophysical costs, are expensed.

The alternative method of accounting for oil and gas exploration and development costs is the full cost method. Under this method, costs of unsuccessful exploration wells as well as all other exploration costs are capitalized and added to the PP&E balance to be depleted on a unit of production basis in the future. In addition, future development costs are depleted over the total proved reserves.

The differences between the full cost and successful efforts methods of accounting make it difficult to compare net income between companies that use different methods of accounting.

Asset Impairments

The Company's oil and gas assets and goodwill are subject to impairment tests. An impairment charge is recorded in the year an asset is determined to be impaired under the successful efforts method. Any impairment charge is the difference between the carrying value of the asset and its fair value. Goodwill represents the excess purchase price over the fair value of identifiable assets and liabilities acquired in business combinations. There have been no changes to the number of reporting units or the manner in which goodwill is allocated to the reporting units during the year. Goodwill is considered to be impaired if its fair value, principally determined based on discounted cash flows, falls below its carrying value. Both tests and potential asset impairment calculations require management to make assumptions regarding cash flows well into the distant future that are subject to revisions due to changes in commodity prices, costs, recoverable reserves, production profiles and discount rates. During the past three years, isolated asset impairments have occurred (2006 – nil; 2005 – $31 million; 2004 – $31 million); however, it is possible that future impairments may be material.

Purchase Price Allocations

The costs of corporate and asset acquisitions are allocated to the acquired assets and liabilities based on their fair value at the time of acquisition. In many cases, the determination of fair value requires management to make certain assumptions and estimates regarding future events. Typically in determining fair value, management develops a number of possible future cash flow scenarios to which probabilities are judgmentally assigned. The allocation process is inherently subjective and impacts the amounts assigned to the various individually identifiable assets and liabilities as well as goodwill. The acquired assets and liabilities may span multiple geographical segments and may be amortized at different rates, or not at all as in the case of goodwill or, initially, for acquired probable reserves. Accordingly, the allocation process impacts the Company's reported assets and liabilities and future net income due to the impact on future depreciation, depletion and amortization expense and impairment tests.

Goodwill, as determined by the purchase price allocation method, represents the excess purchase price over the fair value of identifiable assets and liabilities acquired in business combinations. Goodwill is not amortized but is subject to ongoing annual impairment reviews, or more frequently as economic events dictate, based on the fair value of reporting units. Goodwill is allocated to the reporting units on the basis of the excess of the fair value of the reporting unit over the identifiable assets and liabilities of the reporting unit. The Company's reporting units for goodwill are aggregated within the geographic segments included in note 19 to the Consolidated Financial Statements.

During 2005, Talisman acquired Paladin for $2.6 billion in cash and assumed long-term debt. The acquisition has been accounted for using the purchase method and the Paladin results have been included in the Consolidated Financial Statements of the Company from the date of acquisition. Also during 2005, the Company completed a number of oil and gas property and corporate acquisitions for a total cost of $536 million, comprised of $532 million in cash and assumed working capital and $4 million of properties exchanged. See note 3 to the Consolidated Financial Statements for details.

Asset Retirement Obligations (ARO)

Upon retirement of its oil and gas assets, the Company anticipates incurring substantial costs associated with abandonment and reclamation activities. Estimates of the associated costs are subject to uncertainty associated with the method, timing and extent of future retirement activities. Accordingly, the annual expense associated with future abandonment and reclamation activities is impacted by changes in the estimates of the expected costs and reserves. Changes to these estimates in the past two years have resulted in the following: as at December 31, 2006, an increase of $144 million in the discounted ARO liability related changes in cost estimates in the UK, as well as $14 million and $13 million for North America and rest of the world, respectively, related to changes in cost estimates; and at December 31, 2005, a reduction of $177 million in the discounted ARO liability related to an increase in life of reserves in the UK was offset by increases in the liability of $59 million and $21 million for North America and rest of the world, respectively, related to changes in cost estimates. The total undiscounted abandonment liability is currently estimated at $4.6 billion, which is based on management's probability weighted estimate of costs and in accordance with existing legislation and industry practice.

Under Canadian GAAP, the fair value of the Company's ARO has been recorded as a liability on the Company's balance sheet. In determining the fair value of the Company's ARO liability, management developed a number of possible abandonment scenarios to which probabilities were assigned based on management's reasonable judgment. At December 31, 2006, the discounted fair value of the Company's ARO liability is $1.9 billion, (2005 – $1.3 billion). As an indication of possible future changes in the estimated liability, if all of the Company's abandonment obligations could be deferred by one additional year, the fair value of the liability would have decreased by approximately $72 million.

Foreign Exchange Accounting

Talisman's worldwide operations expose the Company to transactions denominated in a number of different currencies, which are required to be translated into one currency for financial statement reporting purposes. Talisman's foreign currency translation policy, as detailed in note 1(i) to the Consolidated Financial Statements, is designed to reflect the economic exposure of the Company's operations to the various currencies. The adoption of the US$, effective for 2002, as the Company's functional currency is a reflection of Talisman's overall exposure to US$ denominated transactions, assets and liabilities; oil prices are largely denominated in US$ as is much of the Company's corporate debt and international capital spending and operating costs. However, the Company's operations in the UK, Canada and Norway are largely self-sufficient (self-sustaining) and their economic exposure is more closely tied to their respective domestic currencies. Accordingly, these operations are measured in UK£, C$ and Norwegian kroner (NOK), respectively. Currently, the Company's foreign exchange translation exposure principally relates to US$ denominated UK and Canadian oil sales.

As part of the adoption by the Company as at January 1, 2004 of the new accounting guideline on Hedging Relationships, AcG 13, and, effective January 2004, the Eurobond debt, denominated in UK£, and the Company's C$ debt were designated as hedges of the Company's net investments in the UK and Canadian self-sustaining operations, respectively. As such, the unrealized foreign exchange gains and losses resulting from the translation of this debt are deferred and included in a separate component of shareholders' equity described as cumulative foreign currency translation.

Production Sharing Contractual Arrangements

A significant portion of the Company's operations outside North America, the UK and Scandinavia are governed by Production Sharing Contracts (PSCs). Under PSCs, Talisman, along with other working interest holders, typically bears all risk and costs for exploration, development and production. In return, if exploration is successful, Talisman recovers the sum of its investment and operating costs (cost oil) from a percentage of the production and sale of the associated hydrocarbons. Talisman is also entitled to receive a share of the production in excess of cost oil (profit oil). The sharing of profit oil varies between the working interest holders and the government from contract to contract. The cost oil, together with the Company's share of profit oil, represents Talisman's hydrocarbon entitlement (working interest less royalties). Talisman records gross production, sales and reserves based on its working interest ownership. The difference between the Company's working interest ownership and its entitlement is

accounted for as a royalty expense. In addition, certain of the Company's contractual arrangements in foreign jurisdictions stipulate that income taxes are paid out of the respective national oil company's entitlement share of production. The Company includes such amounts in income tax expense at the statutory tax rate in effect at the time of production.

The amount of cost oil required to recover Talisman's investment and costs in a PSC is dependent on commodity prices and, consequently, Talisman's share of profit oil is also impacted. Accordingly, the amount of royalty paid by Talisman over the term of a PSC and the corresponding net after royalty oil and gas reserves booked by the Company are dependent on the amount of initial investment and past costs yet to be recovered and anticipated future costs, commodity prices and production. As a result, when year-end prices increase, the amount of net after royalty reserves the Company books may decrease and vice versa.

New Canadian Accounting Pronouncements

The CICA has issued a number of accounting pronouncements, some of which may impact the Company's reported results and financial position in future periods.

Other Comprehensive Income, Financial Instruments and Hedging

Effective January 1, 2007, Talisman adopted the new CICA accounting standards related to Comprehensive Income (section 1530), Financial Instrument Recognition and Measurement (section 3855), Financial Instruments Disclosure and Presentation (section 3861), and Hedges (section 3865).

Under these standards, the Company must classify all financial instruments into one of the following categories: loans and receivables, assets held-to-maturity, assets available-for-sale, other financial liabilities, and held-for-trading (assets and liabilities). Financial instruments reclassified to held-for-trading or available-for-sale items are re-measured at fair value on adoption of this standard. Gains or losses on re-measurement of held-for-trading items are recognized as an adjustment to opening retained earnings, while gains or losses on re-measurement of available-for-sale items are recognized as an adjustment to opening accumulated other comprehensive income.

Financial instruments that are classified as held-for-trading or available-for-sale are re-measured each reporting period at fair value with the resulting gain or loss recognized immediately in net income and other comprehensive income, respectively. All other financial instruments are accounted for at amortized cost with foreign exchange gains and losses recognized immediately in net income. The recognition, de-recognition and measurement policies followed in financial statements for periods prior to the effective date of this standard are not reversed and, therefore, those financial statements are not restated.

Gains and losses on financial instruments that continue to be part of a cash flow or net investment hedge are recognized in other comprehensive income until realized, at which time they are recovered from other comprehensive income and realized in net income. Any ineffective portion of cash flow hedges is recognized in net income immediately. Net gains/losses on fair value hedges are recognized immediately in net income. Accounting for hedging relationships in financial statements for prior fiscal years is not retroactively changed.

Section 3855 requires that an asset or liability be recognized for embedded derivatives by separating them from their host contracts and measuring them at fair value. Talisman has elected the beginning of its fiscal year-end December 31, 2003 as the effective date for embedded derivatives. Consequently, only embedded derivatives entered into on or after January 1, 2003 are subject to the measurement provisions of these standards.

The adjustment required to the January 1, 2007 balance sheet to implement these changes in accounting standards would be as follows:

Consolidated Balance Sheets	December 31, 2006	Adjustments	January 1, 2007
Assets			
Accounts receivable	**1,136**	122	1,258
Liabilities			
Accounts payable and accrued liabilities	**2,477**	11	2,488
Other long-term obligations	**157**	21	178
Long-term debt	**4,560**	(3)	4,557
Future income taxes	**4,350**	27	4,377
Shareholders' equity			
Accumulated other comprehensive income	–	1,377	1,377
Cumulative foreign currency translation	**122**	(1,311)	(1,189)

Capital Disclosures, Financial Instruments Disclosure and Presentation

In its continued effort to align with international accounting standards, the CICA issued three new accounting standards in the fourth quarter of 2006. The new standard, Financial Instruments Presentation (section 3863), carries forward the guidance under section 3861 with little change. The standard Financial Instruments Disclosure (section 3862) requires disclosure on the face of the balance sheet of each of the financial instrument categories described above, as well as additional disclosure regarding credit, market and liquidity risk faced by the Company. With regards to each of these types of risk, the Company must disclose its Company-specific exposure and how it arises, the Company's objectives, policy and process for managing the risk, the methods used to measure the risk and quantitative data about the exposure to the risk at the balance sheet date, including

concentration of risk that is not otherwise apparent. The new standard Capital Disclosures (section 1535) requires qualitative disclosure of the Company's objectives, policies and processes for managing its capital and quantitative disclosures are required to summarize what the entity considers to be its capital. These standards will become effective for Talisman's first quarter 2008 reporting and are not expected to have a material impact on our results of operations or financial position.

Stock-Based Compensation

In July 2006, the Emerging Issues Committee (EIC) of the CICA issued EIC-162, Stock-based compensation for employees eligible to retire before the vesting date. EIC-162 clarifies the accounting for stock-based compensation plans that allow for vesting of stock-based awards after an employee's retirement. If the employee is eligible to retire on the grant date of an award, related compensation cost is to be recognized in full at that date as there is no ongoing service requirement to earn the award. If the employee becomes eligible to retire during the vesting period, the compensation cost is to be recognized over the period from the grant date to the retirement eligibility date. EIC-162 became effective in the fourth quarter of 2006. This EIC did not represent a change from the Company's accounting for stock-based compensation and, accordingly the adoption of EIC-162 did not have a material impact on our results of operations or financial position.

Discontinued Operations

In April 2006, the EIC of the CICA issued EIC-161, Discontinued Operations in order to address whether corporate interest and general and administrative costs should be allocated to discontinued operations and whether to report discontinued operations if the remaining operations are insignificant. The EIC concluded that interest should be allocated if the debt must either be assumed or repaid upon disposition of the assets, and a company may elect to allocate a portion of its total interest expense to discontinued operations. The EIC also concluded that a company should not report discontinued operations if the remaining operations are insignificant, but must disclose separately the assets and liabilities from discontinued operations. As part of its discontinued operations reporting, Talisman has allocated interest from debt that was required to be repaid from the proceeds of dispositions. See note 2 to the Consolidated Financial Statements.

Business Combinations

Concurrently with the joint Financial Accounting Standards Board/International Accounting Standards Board (FASB/IASB) project, the CICA has coordinated a project addressing the business combinations accounting standard. The proposals under this standard will require the fair value of the acquired business to be measured on the date control is obtained. The full value of the assets and liabilities acquired will be recorded at fair value on the acquirer's balance sheet, including the fair value of any contingent consideration, with the non-controlling interest in these assets and liabilities included in shareholders' equity. Subsequent acquisitions of the non-controlling interest in the acquired company will be subject to gains and losses. All acquisition and integration costs must be expensed as incurred and cannot be recognized as a liability on acquisition. The standard was expected to be finalized in 2006 but has been delayed and it is uncertain when it will become effective.

Financial Accounting Standards Board (FASB) US Pronouncements

In September 2006, FASB issued Statement 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). Statement 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit post-retirement plan on the balance sheet as an asset or liability and to recognize changes in the funded status through comprehensive income. This statement also requires measurement of the funded status of a plan as of the balance sheet date. The recognition and disclosures under Statement 158 are required for fiscal years ending after December 15, 2006 while the new measurement date is effective for fiscal years ending after December 15, 2008. As a result of the adoption of this statement, the recognized net pension liability is higher by $53 million for US GAAP purposes with no GAAP differences to net income. Additional detail is available in our US GAAP reconciliation in note 20 to the Consolidated Financial Statements.

In July 2006, the FASB issued Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), which is a change in accounting for income taxes. FIN 48 specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the balance sheet; and provides transition and interim-period guidance, among other provisions. FIN 48 is effective for fiscal years beginning after December 15, 2006, and will be effective for Talisman's 2007 year end reporting. Talisman is currently evaluating the impact of FIN 48 on our Consolidated Financial Statements.

In September 2006, the FASB issued Statement 157, "Fair Value Measurements". This statement is intended to increase the consistency and comparability of fair value measurements and eliminate different definitions of fair value under various US standards. This standard clarifies that fair value is a market measure and not an entity specific measure. Among other attributes, fair value assumes the highest and best use for the asset or liability being measured and is based on the exit price for the holder of the asset or liability. This standard also establishes a fair value hierarchy as follows: Level 1 is fair value based on observable market inputs that reflect quoted prices in a market accessible to the entity. Level 2 is fair value based on observable market inputs that do not reflect quoted prices in a market accessible to the entity, for example quoted prices for similar assets or identical assets in inactive markets, or inputs derived through interpolation of other observable market data. Level 3 fair value is based on unobservable market inputs, for example inputs derived through interpolation that cannot be corroborated by observable market data. The total fair value of assets and liabilities that are re-measured each reporting date must be grouped by hierarchy level for disclosure purposes, and in addition a continuity of the changes in the Level 3 measurements must be disclosed. This statement is effective for fiscal years beginning on or after

November 15, 2007 and will be effective for Talisman in fiscal 2008. Talisman is currently evaluating the impact that Statement 157 on our Consolidated Financial Statements.

Outlook for 2007[1]

	Estimated for 2007	Actual 2006[2]
Cash provided by operating activities ($)	5.0 billion	**4.4 billion**

Exploration and development spending		Estimated for 2007		Actual 2006
(millions of dollars)	Exploration	Development	Total E&D	Total E&D
North America	875	1,455	2,330	**2,420**
United Kingdom	150	1,025	1,175	**1,208**
Scandinavia	140	300	440	**332**
Southeast Asia	155	515	670	**331**
Other[3]	155	85	240	**249**
	1,475	3,380	4,855	**4,540**

Production (daily average)	Estimated for 2007	Actual 2006[2]
Oil and liquids (bbls/d)		
North America	42,500	**53,277**
United Kingdom	122,000	**102,742**
Scandinavia	33,000	**32,474**
Southeast Asia	45,200	**51,582**
Other[3]	21,300	**21,559**
	264,000	**261,634**
Natural gas (mmcf/d)		
North America	900	**910**
United Kingdom[4]	110	**126**
Scandinavia	13	**14**
Southeast Asia	303	**292**
	1,326	**1,342**
Barrels of oil equivalent (mboe/d)	485	**485**

Commodity price and exchange rate assumptions		
US$/bbl WTI oil price	65.00	**66.25**
US$/mmbtu NYMEX natural gas price	7.50	**7.26**
US$/C$ exchange rate	0.90	**0.88**
C$/£ exchange rate	2.05	**2.09**

1 A 2007 estimate of net income and net income per share has not been provided due to the inherent difficulties of estimating certain non-cash expenses, such as dry hole, property impairments and non-cash stock-based compensation. The Outlook for 2007 includes the impact of Canadian asset sales assumed to be completed early in the second quarter of 2007, sale of the Company's UK Brae assets assumed to be completed later in 2007 and the sale of the Company's 1.25% indirect interest in Syncrude completed early in 2007.

2 2006 Actual includes continuing and discontinued operations.

3 Other includes Algeria, Tunisia, Trinidad and Tobago, Colombia, Peru and Qatar.

4 Includes gas acquired for injection and subsequent resale of 20 mmcf/d and 18 mmcf/d for the 2007 estimate and actual 2006, respectively.

2007 Geographic Outlook

Talisman expects production to remain relatively flat in 2007 at approximately 485,000 boe/d.

Unit operating costs are expected to be marginally higher than in 2006; however, unit production costs, in addition to being impacted by currency exchange rates, are dependent on achieving expected production levels. Capital spending is expected to be approximately $4.8 billion and excludes significant corporate and asset acquisitions. The Company anticipates participating in the drilling of 448 wells in North America and 158 wells internationally during 2007 (gross).

North America (Includes Alaska)

In 2007, natural gas will continue to be the focus of the Company's exploration activities in North America, including deep gas exploration in Western Canada and the ongoing drilling program in Appalachia, supplemented by low risk oil projects. The Company has budgeted $100 million in Alaska during 2007, primarily to drill up to three exploration wells and conduct further exploration activities. North American natural gas production in 2007

is expected to average 900 mmcf/d, while oil and liquids is expected to average 42,500 bbls/d, as the Company will spend approximately 93% of the North America budget on natural gas exploration and development. The Company expects to spend approximately $2.3 billion on capital projects and drilling in 2007, 4% less than 2006. The Company plans to participate in approximately 448 wells in 2007, including 11 high impact exploration wells. Unit operating costs are expected to increase slightly to approximately $7.33/boe due to increased processing and power costs.

United Kingdom

Production in the UK is expected to average 122,000 bbls/d and 110 mmcf/d in 2007. Capital spending is planned to decrease by 3% from 2006, to approximately $1.2 billion, with 87% related to development projects. The Company plans to drill 32 gross development wells including one shared well with Scandinavia and up to five gross exploration wells. The ongoing program to develop the Tweedsmuir field anticipates first production in April of 2007. Capital expenditures are also directed at development programs in eight fields, which are expected to significantly increase production by 2009. UK 2007 unit operating expenses are expected to drop slightly from the 2006 amount. At planned exchange rates (approximately £1:C$2.05), unit operating costs are expected to average $16.70/boe.

Scandinavia

Scandinavia production is expected to average 33,000 bbls/d and 13 mmcf/d in 2007. Capital spending is planned at $440 million, with 68% related to development projects. The Company plans to drill 10 gross development wells including one shared with the UK and up to seven gross exploration wells. Unit operating costs are expected to average $22/boe.

Southeast Asia

While pursing additional hydrocarbon assets in the SE Asia, monetization of the existing large gas reserves and the development of shallow water oil and gas plays will be continued.

In Indonesia, Talisman will continue the development of the major natural gas discoveries at Corridor and the exploration of its extensive acreage. Natural gas sales in Indonesia are expected to average 230 mmcf/d in 2007. Total planned capital spending of $100 million in Indonesia during 2007 includes the completion of the Phase 2 expansion of the gas processing facilities at Suban in the Corridor PSC, drilling of 32 gross development wells (excluding four injectors) and up to four gross exploration wells. Oil and liquids production in Indonesia is expected to average 11,000 bbls/d.

Malaysia/Vietnam production for 2007 is targeted at 39,400 boe/d, which includes an average of 27,200 bbls/d of liquids and an average of 73 mmcf/d of natural gas. Total development capital spending during 2007 in Malaysia/Vietnam is expected to be approximately $422 million of which 21 gross development wells are planned for a total of $105 million. The development of the Northern Fields will continue in 2007 with spending of $216 million. First gas production is expected in early second quarter of 2008 with first oil in the third quarter of 2008. The Song Doc project in Block 46/02 will incur $28 million in 2007 with first oil production commencing in the second quarter of 2008. A total of $119 million on exploration activities is planned with two PM-3 CAA wells, one well in PM-305 and four PM-314 wells. In addition, Talisman plans to drill up to three exploration wells in Block 15-2/01 in Vietnam in 2007.

In Australia in 2007, oil and liquids production is expected to average 7,000 bbls/d, with capital spending of $30 million to participate in one development well.

Operating costs in Southeast Asia are expected to be approximately $4.46/boe in 2007 similar to 2006.

Other

Production from the Ourhoud and MLN fields in Algeria, together with production in Tunisia, is expected to average 15,000 bbls/d in 2007. Unit operating costs are expected to fall due to higher production. A capital budget of $60 million is estimated and, in Algeria, includes drilling 17 development wells, the commissioning of the Phase 2 expansion of the Greater MLN facility and the El Merk project sanctioning, with first oil in 2010. Two development wells and up to five exploration wells are planned in Tunisia.

In Trinidad and Tobago, capital spending is budgeted at $65 million, split approximately equally between development and exploration with the drilling of up to seven exploration wells and four development wells. Production in Trinidad and Tobago is expected to average 6,300 bbls/d.

The Company is exploring in South America, where it expects to spend $26 million in 2007 on exploration activities in Peru and Colombia. The Company also plans to spend an estimated $24 million in Qatar, which will include the drilling of up to two exploration wells in Block 10.

At year-end, Talisman has committed approximately 15% of its anticipated 2007 North American natural gas production under commodity sales contracts at an average price of $7.89/mcf. In addition, approximately 13% of the Company's anticipated 2007 UK oil and liquids production is hedged at an average price of US$65.90/bbl.

A summary of the contracts outstanding at year-end can be found in notes 11 and 12 to the Consolidated Financial Statements. Additional discussion of the Company's commodity price hedging program can be found in the MD&A section entitled Derivative Financial Instruments and Commodity Sales Contracts.

Liquidity

The Company expects to fund most of its exploration and development expenditures from cash flow from operating activities. Proceeds from the disposal of non-core asset sales are expected to be used to fund share repurchases under its NCIB program and any excess capital expenditures over cash flow from operating activities. The maturities of certain debentures and notes in 2007 are expected to be funded by drawings under the Company's unsecured revolving credit facilities. Subsequent acquisitions or dispositions, a change from expected commodity prices, working capital movements or changes in the amount of share repurchases would impact the Company's net debt position.

Sensitivities

Talisman's financial performance is affected by factors such as changes in production volumes, commodity prices and exchange rates. The estimated impact of these factors on the Company's 2007 financial performance is summarized in the following table and is based on a WTI oil price of US$65/bbl, a NYMEX natural gas price of US$7.50/mmbtu, a US$/C$ exchange rate of $0.90 and a C$/UK£ exchange rate of $2.05.

Approximate Impact in 2007

(millions of C$)	Net Income	Cash Provided by Operating Activities
Volume changes		
Oil – 1,000 bbls/d	7	11
Natural gas – 10 mmcf/d	8	16
Price changes[1]		
Oil – US$1/bbl	44	43
Natural gas (North America)[2] – C$0.10/mcf	16	21
Exchange rate changes		
US$ increased by US$0.01	40	64
£ increase by C$0.023	(7)	2

1 The impact of commodity contracts outstanding as at December 31, 2006 has been included.

2 Price sensitivity on natural gas relates to North American natural gas only. The Company's exposure to changes in North Sea and Malaysia/Vietnam natural gas prices is not material. Most of the Indonesia natural gas price is based on the price of crude oil and, accordingly, has been included in the price sensitivity for oil except for a small portion, which is sold at a fixed price.

Risk Factors

Talisman is exposed to a number of risks inherent in exploring for, developing and producing crude oil and natural gas. This section describes the risks and other matters that would be most likely to influence an investor's decision to purchase securities of Talisman.

Ability to Find, Develop or Acquire Additional Reserves

The Company's future success depends largely on its ability to find, develop or acquire additional oil and gas reserves that are economically recoverable. Exploration and development drilling may not result in commercially productive reserves. Successful acquisitions require an assessment of a number of factors, many of which are uncertain. These factors include recoverable reserves, exploration potential, future oil and gas prices, operating costs and potential environmental and other liabilities. Such assessments are inexact and their accuracy is inherently uncertain.

Operational Hazards and Responsibilities

Oil and gas drilling and producing operations are subject to many risks, including the possibility of fire, explosions, mechanical failure, pipe failure, chemical spills, accidental flows of oil, natural gas or well fluids, sour gas releases, storms or other adverse weather conditions and other occurrences or accidents, which could result in personal injury or loss of life, damage or destruction of properties, environmental damage, interruption of business, regulatory investigations and penalties and liability to third parties. The Company has developed a comprehensive HSE management framework to mitigate physical risks. The Company also mitigates insurable risks to protect against significant losses by maintaining a comprehensive insurance program, while maintaining levels and amounts of risk within the Company that management believes to be acceptable. Talisman believes its liability, property and business interruption insurance is appropriate to its business and consistent with common industry practice, although such insurance will not provide coverage in all circumstances.

Project Completion Risks

Talisman manages a variety of projects, including exploration and development projects and the construction or expansion of facilities and pipelines. Project delays may delay expected revenues and project cost overruns could make projects uneconomic. Talisman's ability to complete projects depends upon numerous factors beyond the Company's control. These factors include the availability of processing capacity; the availability and proximity of pipeline capacity; the availability of drilling and other equipment; the ability to access lands; weather; unexpected cost increases; accidents; the availability of skilled labour, including engineering and project planning personnel; and regulatory matters. The significant rate of inflation in the cost of materials and services over the last two years has become a major factor affecting project economics and project planning.

Uncertainty of Reserves Estimates

The process of estimating oil and gas reserves is complex and involves a significant number of decisions and assumptions in evaluating available geological, geophysical, engineering and economic data; therefore, reserves estimates are inherently uncertain. Talisman prepares all of its reserves information internally. The Company may adjust estimates of proved reserves based on production history, results of exploration and development drilling, prevailing oil and gas prices and other factors, many of which are beyond the Company's control. In addition, there are numerous uncertainties in forecasting the amounts and timing of future production, costs, expenses and the results of exploration and development projects. All estimates are, to some degree, uncertain and classifications of reserves are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, the classification of such reserves based on risk of recovery and the standardized measure of discounted future net cash flows prepared by different engineers or by the same engineers at different times, may vary substantially. Talisman's actual production, taxes and development and operating expenditures with respect to its reserves will likely vary from such estimates and such variances could be material.

Estimates with respect to reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reservoirs, rather than upon actual production history. Estimates based on these methods generally are less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be material, in the estimated reserves.

Political Risks

The Company's operations may be adversely affected by changes in governmental policies and legislation or social instability or other political or economic developments, which are not within the control of Talisman, including, among other things, a change in crude oil or natural gas pricing policy, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, economic sanctions, the imposition of specific drilling obligations, the development and abandonment of fields, fluctuating exchange rates and currency controls. With recent record commodity prices, there is a corresponding re-emergence of nationalization or expropriation in increased taxation risk in many countries. In addition, both Indonesia and Algeria are members of the Organization of Petroleum Exporting Countries (OPEC). Talisman's operations in these countries may, therefore, be impacted by the application of OPEC quotas. Various countries in which the Company is active, including Indonesia, Algeria, Colombia and Peru, have been subject to recent economic or political instability and social unrest, military or rebel hostilities. In addition, Talisman regularly evaluates opportunities worldwide and may, in the future, engage in projects or acquire properties in other nations that are experiencing economic or political instability and social unrest, or military hostilities or are subject to United Nations or US sanctions. Some of the foregoing government actions may lead to political or reputational pressures on the Company from non-governmental organizations, home governments and investors.

Volatility of Oil and Natural Gas Prices

Talisman's financial performance is highly sensitive to prevailing prices of crude oil and natural gas. Fluctuations in crude oil or natural gas prices could have a material adverse effect on the Company's operations and financial condition, the value of its oil and natural gas reserves and its level of spending for oil and gas exploration and development. Prices for crude oil and natural gas fluctuate in response to changes in the supply of and demand for crude oil and natural gas, market uncertainty and a variety of additional factors that are largely beyond the Company's control. Oil prices are determined by international supply and demand. Factors which affect crude oil prices include the actions of OPEC, world economic conditions, government regulation, political stability in the Middle East and elsewhere, the availability of alternative fuel sources and weather conditions. Most natural gas prices realized by Talisman are affected primarily by North American supply and demand, weather conditions and by prices of alternative sources of energy. The development of oil and natural gas discoveries in offshore areas is particularly dependent on the outlook for oil and natural gas prices because of the large amount of capital expenditure required for development prior to commencing production.

A substantial and extended decline in the prices of crude oil or natural gas could result in delay or cancellation of drilling, development or construction programs, or curtailment in production or result in unutilized long-term transportation commitments, all of which could have a material adverse impact on the Company. The amount of cost oil required to recover Talisman's investment and costs in various PSCs is dependent on commodity prices, with higher commodity prices resulting in a lower amount of net after royalty oil and gas reserves booked by the Company.

Litigation

From time to time, Talisman is the subject of litigation arising out of the Company's operations. Damages claimed under such litigation, including the litigation discussed below, may be material or may be indeterminate and the outcome of such litigation may materially impact the Company's financial condition or results of operations. While Talisman assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defend itself against such litigation. These claims are not currently expected to have a material impact on the Company's financial position.

On September 12, 2006, the United States District Court for the Southern District of New York (the Court) granted Talisman's Motion for Summary Judgment, dismissing the lawsuit brought against Talisman by the Presbyterian Church of Sudan and others under the Alien Tort Claims Act. The lawsuit alleged that the Company conspired with, or aided and abetted, the Government of Sudan to commit violations of international law in connection with the Company's now disposed of interest in oil operations in Sudan. The plaintiffs have twice attempted to certify the lawsuit as a class action. In March 2005 and in September 2005, the Court rejected the plaintiffs' effort to certify two different classes (or groups) of plaintiffs. On July 19, 2006, the Second Circuit Court of Appeals denied the plaintiffs' request to appeal the Court's refusal to certify the lawsuit as a class action. The plaintiffs have appealed the Court's decision granting Talisman's Motion for Summary Judgment and all prior rulings to the Second Circuit Court of Appeals. Talisman believes the lawsuit is entirely without merit and will continue to vigorously defend itself. Talisman does not expect the lawsuit to have a material adverse effect on it.

Environmental Risks

All phases of the oil and natural gas business are subject to environmental regulation pursuant to a variety of laws and regulations in the countries in which Talisman does business. These regulatory regimes are laws of general application that apply to the Company's business in the same manner as they apply to other companies or enterprises in the energy industry. Environmental legislation imposes, among other things, restrictions, liabilities and obligations in connection with the generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste, and in connection with spills, releases and emissions of various substances to the environment. Environmental legislation also requires that pipelines, wells, facility sites and other properties associated with Talisman's operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Certain types of operations, including exploration and development projects, may require the submission and approval of environmental impact assessments or permit applications. In some cases, exploration and development activities may be precluded or

restricted due to designation of areas as environmentally sensitive areas. Compliance with environmental legislation can require significant expenditures and failure to comply with environmental legislation may result in the imposition of fines and penalties and liability for cleanup costs and damages. Additionally, the Company's business is subject to the trend toward increased civil liability for environmental matters. Although Talisman currently believes that the costs of complying with environmental legislation and dealing with environmental civil liabilities will not have a material adverse effect on the Company's financial condition or results of operations, there can be no assurance that such costs in the future will not have such an effect. Talisman expects to incur site restoration costs over a prolonged period as existing fields are depleted. The Company provides for future abandonment and reclamation costs in its annual Consolidated Financial Statements in accordance with Canadian GAAP. Additional information regarding future abandonment and reclamation costs is set forth in the notes to the annual Consolidated Financial Statements.

In 1994, the United Nations' Framework Convention on Climate Change came into force and three years later led to the Kyoto Protocol (the Protocol). The Protocol came into force on February 16, 2005 and requires certain nations to reduce their emissions of carbon dioxide and other greenhouse gases. Under the terms of the Protocol, Canada will be required to reduce its greenhouse gas (GHG) emissions to 6% below 1990 levels over the period beginning in 2008 and ending in 2012. Currently, Canadian oil and gas producers are in discussions with the provincial and federal levels of government regarding implementation mechanisms for the industry. It is premature to predict what impact the Protocol could have on Canadian oil and gas producers (and specifically, if and in what manner it will be implemented) but it is likely that any mandated reduction in GHG emissions will result in increased costs.

The UK has also ratified the Protocol, with a reduction commitment of 12.5% below 1990 levels by 2008 to 2012. Talisman's UK installations are currently participating in the first phase of the European Union Emission Trading Scheme (EU ETS), which runs from 2005 to 2007, inclusive. Direct costs associated with this participation have been negligible. Phase 2 of the EU ETS runs from 2008 to 2012, inclusive. The UK government submitted its National Allocation Plan (NAP) for Phase 2 of the EU ETS to the European Commission in August 2006. The NAP specifies a cap on carbon dioxide emissions for the covered sectors, the methods for allocating emission allowances to covered installations, and the number of emission allowances to be allocated to each covered installation. Talisman expects that Phase 2 compliance costs will not be material; however, this will depend in part on future pricing in the EU and global carbon markets.

Dependence on Other Operators

Other companies operate some of the assets in which Talisman has interests. As a result, Talisman may have limited ability to exercise influence over operations of these assets or their associated costs, which could adversely affect the Company's financial performance. The success and timing of Talisman's activities on assets operated by others will, therefore, depend on a number of factors that may be outside of the Company's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and the risk of management practices. For information on the percentages of assets which are operated/non-operated by Talisman, see Description of the Business in the Company's Annual Information Form.

Differences in Ownership Interests in Foreign Operations

In Canada and the US, the state or private landowners own oil and gas rights and lease those rights to corporations who are responsible for the development of such rights within the time frames described in the leases. This practice differs distinctly in some foreign countries in which Talisman does or may do business in the future. In those countries, the state often grants interests in large tracts of lands or offshore fields and maintains control over the development of the oil and gas rights, in some cases through equity participation in the exploration and development of the rights. This usually includes the imposition of obligations on Talisman to complete minimum work within specified time frames. Transfers of interests typically require state approval, which may delay or otherwise impede transfers. In addition, if a dispute arises in Talisman's foreign operations, the Company may be subject to the exclusive jurisdiction of foreign arbitration tribunals or foreign courts.

Competition

The petroleum industry is highly competitive. Specific disclosure regarding competition is disclosed under the heading Competitive Conditions in this MD&A.

Exchange Rate Fluctuations

Talisman's consolidated financial statements are presented in C$. Results of operations are affected primarily by the exchange rates between the C$, the US$, UK£ and Norwegian kroner. These exchange rates have varied substantially in the last five years. Most of the Company's revenue is received in or is referenced to US$ denominated prices, while the majority of Talisman's expenditures are denominated in C$, US$, UK£ and Norwegian kroner. A change in the relative value of the C$ against the US$ or the UK£ would also result in an increase or decrease in Talisman's US$ or UK£ denominated debt, as expressed in C$ and the related interest expense. Talisman is also exposed to fluctuations in other foreign currencies.

Hedging Programs

Talisman monitors the Company's exposure to variations in commodity prices, interest rates and foreign exchange rates, and in response to these, puts in place hedging contracts from time to time. The Company may in the future find it appropriate to enter into additional derivative financial instruments and physical delivery contracts to reduce such exposure. The terms of these instruments or contracts may limit the benefit of commodity price increases and changes in interest rates and currency value, which are otherwise favourable to Talisman and may result in financial or opportunity loss due to delivery commitments, royalty rates and counterparty risks associated with the contracts.

Dependence on Management and Other Personnel

The success of Talisman is dependent upon its management and the quality of its personnel. Failure to retain current employees or to attract and retain new employees with the necessary skills could have a materially adverse effect on Talisman's growth and profitability. Numerous competing large-scale oil and gas development projects have significantly increased the demand for industry-specific personnel. In addition, a significant percentage of the workforce will be eligible for retirement in the next few years.

Disclosure Controls and Procedures

At the end of the period covered by this MD&A, an evaluation was carried out under the supervision of, and with the participation of, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operations of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective in ensuring that information required to be disclosed by the Company in reports that it files with or submits to the Canadian securities administrators is recorded, processed, summarized and reported within the time periods required.

It should be noted that, while the Company's Chief Executive Officer and Chief Financial Officer believe the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Advisories

Forward-Looking Statements

This MD&A contains statements that constitute forward-looking statements or forward-looking information (collectively, forward-looking statements) within the meaning of applicable securities legislation. Forward-looking statements are included throughout this MD&A, including, among other places, under the headings 2007 Outlook Summary, Outlook for 2007, 2007 Geographic Outlook, Approximate Impact in 2007 and Risk Factors. These statements include, among others, statements regarding:

- estimates of production and operations or financial performance;
- estimates and prices of future sales;
- business plans for drilling, exploration and development;
- the estimated amounts and timing of capital expenditures;
- the estimated timing and results of production, including new production;
- estimates of unit operating costs;
- business strategy and plans or budgets;
- the anticipated schedule for commissioning of pipelines;
- royalty rates and exchange rates;
- funding for maturities of debentures and notes;
- planned asset dispositions and acquisitions and their timing;
- use of proceeds from asset dispositions;
- the merits or anticipated outcome of pending litigation; and
- other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations or performance.

Statements concerning oil and gas reserves contained in this MD&A may be deemed to be forward-looking statements as they involve the implied assessment that the resources described can be profitably produced in the future, based on certain estimates and assumptions. Often, but not always, forward-looking statements use words or phrases such as 'expects', 'does not expect' or 'is expected', 'anticipates' or 'does not anticipate', 'plans' or 'planned', 'estimates' or 'estimated', 'projects' or 'projected', 'forecasts' or 'forecasted', 'believes', 'intends', 'likely', 'possible', 'probable', 'scheduled', 'positioned', 'goal', 'objective' or state that certain actions, events or results 'may', 'could', 'would', 'might' or 'will' be taken, occur or be achieved.

Various assumptions were used in drawing the conclusions or making the forecasts and projections contained in the forward-looking statements throughout this MD&A. Statements that discuss business plans for drilling, exploration and development in 2007 assume that the extraction of crude oil, natural gas and natural gas liquids remains economic. For the purposes of preparing this MD&A, Talisman assumed a US$65/bbl WTI oil price, a US$7.50/mmbtu NYMEX natural gas price, a US$/C$ exchange rate of $0.90 and a C$/UK£ exchange rate of $2.05 in 2007.

This MD&A also discusses cash provided by operating activities for 2007. The material assumptions used in determining estimates of cash provided by operating activities are the anticipated production volumes described in the 2007 Outlook Summary, Outlook for 2007, 2007 Geographic Outlook and Risk Factors sections of this MD&A; estimates of realized sales prices, which are, in turn, driven by benchmark prices, quality differentials and the impact of exchange rates; estimated royalty rates; estimated operating expenses; estimated transportation expenses; estimated general and administrative expenses; estimated interest expense, including the level of capitalized interest; anticipated cash payments made by the Company upon surrender of outstanding stock options using the cash payment feature, which, in turn, are dependent on the trading level of the Company's common shares and the number of stock options surrendered or exercised; and the anticipated amount of cash income tax and PRT.

Forecast production volumes are based on the midpoint of the estimated production range. Statements regarding estimated future production and production growth, as well as estimated financial results that are derived from or depend upon future production estimates (such as cash provided by operating activities), incorporate the estimated impact of the sale of the Company's indirect Syncrude interest which was completed on January 2, 2007, the anticipated completion of the UK Brae asset sale and the non-core asset disposition program in Canada. The completion of any contemplated asset dispositions is contingent on various factors, including favourable market conditions, the ability of the Company to negotiate acceptable terms of sale and receipt of any required approvals for such dispositions. The amount of taxes and cash payments made upon surrender of existing stock options is inherently difficult to predict.

Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated by Talisman and described in the forward-looking statements. These risk factors include:

- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas, and market demand, including unpredictable facilities outages;
- risks and uncertainties involving geology of oil and gas deposits;
- the uncertainty of reserves estimates, reserves life and underlying reservoir risk;
- the uncertainty of estimates and projections relating to production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- the outcome and effects of completed acquisitions, as well as any future acquisitions and dispositions;
- the ability of the Company to integrate any assets it has acquired or may acquire or the performance of those assets;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing and changes in capital markets;
- uncertainties related to the litigation process, such as possible discovery of new evidence or acceptance of novel legal theories and difficulties in predicting the decisions of judges and juries;
- risks in conducting foreign operations (for example, political and fiscal instability or the possibility of civil unrest or military action);
- competitive actions of other companies, including increased competition from other oil and gas companies providing alternative sources of energy;
- changes in general economic and business conditions;
- the effect of acts of, or actions against, international terrorism;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;
- results of the Company's risk mitigation strategies, including insurance and any hedging programs; and
- the Company's ability to implement its business strategy.

We caution that the foregoing list of risks and uncertainties is not exhaustive. Additional information on these and other factors that could affect the Company's operations or financial results are included: (1) under the heading Risk Factors in the Company's Annual Information Form; and (2) under the heading Risks Factors and elsewhere in this MD&A. Additional information may also be found in the Company's other reports on file with Canadian securities regulatory authorities and the US Securities and Exchange Commission (SEC). Forward-looking statements are based on the estimates and opinions of the Company's management at the time the statements are made. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change, except as required by law.

Reserves Data and Other Oil and Gas Information

Talisman's disclosure of reserves data and other oil and gas information is made in reliance on an exemption granted to Talisman by Canadian securities regulatory authorities, which permits Talisman to provide disclosure in accordance with US disclosure requirements. The information provided by Talisman may differ from the corresponding information prepared in accordance with Canadian disclosure standards under National Instrument 51-101 (NI 51-101). Talisman's proved reserves have been calculated using the standards contained in Regulation S-X of the SEC. US practice is to disclose net proved reserves after deduction of estimated royalty burdens, including net profits interests. Talisman makes additional voluntary disclosure of gross proved reserves. Probable reserves, which Talisman also voluntary discloses, have been calculated using the definition for probable reserves set out by the Society of Petroleum Engineers/World Petroleum Congress. The SEC normally permits oil and gas companies to disclose in their filings with the SEC only proved reserves that have been demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. Accordingly, any probable reserves and the calculations with respect thereto included herein do not meet the SEC's standards for inclusion in documents filed with the SEC. Talisman's estimates of proved reserves and probable reserves are based on the same assumptions. Further information on the differences between the US requirements and the NI 51-101 requirements is set forth under the heading Note Regarding Reserves Data and Other Oil and Gas Information in Talisman's Annual Information Form.

The exemption granted to Talisman also permits it to disclose internally evaluated reserves data. Any reserves data in this MD&A reflects Talisman's estimates of its reserves. While Talisman annually obtains an independent audit of a portion of its reserves, no independent qualified reserves evaluator or auditor was involved in the preparation of the reserves data disclosed in this MD&A.

Report of Management

The Board of Directors is responsible for the Consolidated Financial Statements but has delegated responsibility for their preparation to management.

Management has prepared the Consolidated Financial Statements in accordance with accounting principles generally accepted in Canada (with a reconciliation to accounting principles generally accepted in the United States). If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has ensured that the Consolidated Financial Statements are presented fairly in all material respects. Management has also prepared the financial information presented elsewhere in the Annual Financial Report and ensured that it is consistent with information in the Consolidated Financial Statements.

The Board of Directors is responsible for reviewing and approving the Consolidated Financial Statements and Management's Discussion and Analysis and, primarily through its Audit Committee, ensures that management fulfills its responsibilities for financial reporting.

The Audit Committee is appointed by the Board of Directors and is composed entirely of unrelated, independent directors. The Audit Committee meets regularly with management, and with the internal and external auditors, to discuss internal controls and reporting issues and to satisfy itself that each party is properly discharging its responsibilities. It reviews the Consolidated Financial Statements and the external auditors' report. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the external auditors.

Ernst & Young LLP, the external auditors, have audited the Consolidated Financial Statements in accordance with auditing standards generally accepted in Canada and the standards of the Public Company Accounting Oversight Board (United States) on behalf of the shareholders. Ernst & Young LLP have full and free access to the Audit Committee.

Management Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the United States Securities Exchange Act of 1934.

Management has conducted an evaluation of the Company's internal control over financial reporting based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on management's assessment as of December 31, 2006, the end of the Company's fiscal year, management concludes that the Company's internal control over financial reporting is effective.

Management reviewed the results of management's assessment with the Audit Committee of the Company's Board of Directors. The Company's independent registered public accounting firm, Ernst & Young LLP, audited management's assessment and independently assessed the effectiveness of the Company's internal control over financial reporting. Ernst & Young LLP's attestation is located in the Independent Auditors' Report on Internal Controls under Standards of The Public Company Accounting Oversight Board (United States) which is an exhibit to the Company's Annual Report on Form 40-F.

James W. Buckee
President and Chief Executive Officer

Philip D. Dolan
Vice-President, Finance and
Chief Financial Officer

March 13, 2007

Independent Auditors' Report on Internal Controls Under Standards of the Public Company Accounting Oversight Board (United States)

To the Shareholders of Talisman Energy Inc.

We have audited management's assessment, included in this annual report, that Talisman Energy Inc. (the "Company") maintained effective internal control over financial reporting as at December 31, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("the COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006 based on the COSO criteria.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Talisman Energy Inc. as at December 31, 2006 and 2005 and the consolidated statements of income, retained earnings and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated March 1, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

March 1, 2007
Calgary, Canada

Independent Auditors' Report on Financial Statements

To the Shareholders of Talisman Energy Inc.

We have audited the consolidated balance sheets of Talisman Energy Inc. (the "Company") as at December 31, 2006 and 2005 and the consolidated statements of income, retained earnings and cash flows for each of the years in the three-year period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Talisman Energy Inc. as at December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

March 1, 2007
Calgary, Canada

Consolidated Balance Sheets

December 31 (millions of C$)	2006	2005 (restated) (note 2)
Assets		
Current		
Cash and cash equivalents	**103**	145
Accounts receivable (note 11)	**1,136**	1,219
Inventories (note 4)	**368**	170
Prepaid expenses	**25**	20
Assets of discontinued operations (note 2)	**443**	793
	2,075	2,347
Accrued employee pension benefit asset (note 18)	**50**	57
Other assets	**102**	74
Goodwill (note 3)	**1,543**	1,434
Property, plant and equipment (note 5)	**17,691**	14,196
Assets of discontinued operations (note 2)	**–**	246
	19,386	16,007
Total assets	**21,461**	18,354
Liabilities		
Current		
Bank indebtedness	**39**	15
Accounts payable and accrued liabilities (notes 6, 8 and 9)	**2,477**	2,336
Income and other taxes payable	**412**	649
Liabilities of discontinued operations (note 2)	**235**	238
	3,163	3,238
Deferred credits (note 11)	**59**	74
Asset retirement obligations (note 6)	**1,865**	1,223
Other long-term obligations (notes 8 and 9)	**157**	216
Long-term debt (note 7)	**4,560**	4,263
Future income taxes (note 15)	**4,350**	3,367
Liabilities of discontinued operations (note 2)	**–**	178
	10,991	9,321
Non-controlling interest	**–**	66
Contingencies and commitments (notes 11 and 12)		
Shareholders' equity		
Common shares (note 8)	**2,533**	2,609
Contributed surplus (note 8)	**67**	69
Cumulative foreign currency translation (note 10)	**122**	(265)
Retained earnings	**4,585**	3,316
	7,307	5,729
Total liabilities and shareholders' equity	**21,461**	18,354

See accompanying notes

On behalf of the Board

Douglas D. Baldwin
Chairman of the Board

Robert G. Welty
Director

Consolidated Statements of Income

Years ended December 31 (millions of C$ unless otherwise stated)	2006	2005 (restated) (note 2)	2004 (restated) (note 2)
Revenue			
Gross sales	**9,362**	8,888	6,299
Hedging (gain) loss	**(66)**	77	480
Gross sales, net of hedging	**9,428**	8,811	5,819
Less royalties	**1,603**	1,516	1,059
Net sales	**7,825**	7,295	4,760
Other (note 13)	**119**	112	80
Total revenue	**7,944**	7,407	4,840
Expenses			
Operating	**1,651**	1,338	1,091
Transportation	**207**	185	174
General and administrative	**233**	201	183
Depreciation, depletion and amortization	**2,005**	1,689	1,479
Dry hole	**296**	241	311
Exploration	**318**	275	238
Interest on long-term debt	**166**	163	173
Stock-based compensation (note 8)	**51**	633	171
Other (note 14)	**(29)**	39	89
Total expenses	**4,898**	4,764	3,909
Income from continuing operations before taxes	**3,046**	2,643	931
Taxes (note 15)			
Current income tax	**752**	978	427
Future income tax (recovery)	**552**	127	(143)
Petroleum revenue tax	**290**	184	128
	1,594	1,289	412
Net income from continuing operations	**1,452**	1,354	519
Net income from discontinued operations (note 2)	**553**	207	135
Net income	**2,005**	1,561	654
Per common share (C$) (note 17)			
Net income from continuing operations	**1.33**	1.23	0.45
Diluted net income from continuing operations	**1.29**	1.20	0.44
Net income from discontinued operations	**0.51**	0.18	0.12
Diluted net income from discontinued operations	**0.50**	0.18	0.12
Net income	**1.84**	1.41	0.57
Diluted net income	**1.79**	1.38	0.56
Average number of common shares outstanding (millions)	**1,092**	1,104	1,149
Diluted number of common shares outstanding (millions)	**1,122**	1,131	1,170

See accompanying notes

Consolidated Statements of Retained Earnings

Years ended December 31 (millions of C$)	2006	2005	2004
Retained earnings, beginning of year	**3,316**	2,170	1,852
Net income	**2,005**	1,561	654
Common share dividends	**(163)**	(125)	(114)
Purchase of common shares (note 8)	**(573)**	(290)	(222)
Retained earnings, end of year	**4,585**	3,316	2,170

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 (millions of C$)	2006	2005 (restated) (note 2)	2004 (restated) (note 2)
Operating			
Net income from continuing operations	**1,452**	1,354	519
Items not involving cash (note 16)	**2,690**	2,631	1,820
Exploration	**318**	275	238
	4,460	4,260	2,577
Changes in non-cash working capital (note 16)	**(374)**	199	203
Cash provided by continuing operations	**4,086**	4,459	2,780
Cash provided by discontinued operations	**288**	412	339
Cash provided by operating activities	**4,374**	4,871	3,119
Investing			
Corporate acquisitions (note 3)	**(66)**	(2,549)	–
Capital expenditures			
Exploration, development and corporate	**(4,576)**	(3,159)	(2,498)
Acquisitions (note 3)	**(201)**	(260)	(317)
Proceeds of resource property dispositions	**112**	17	75
Changes in non-cash working capital	**246**	138	50
Discontinued operations	**715**	(331)	(67)
Cash used in investing activities	**(3,770)**	(6,144)	(2,757)
Financing			
Long-term debt repaid	**(4,570)**	(1,294)	(1,069)
Long-term debt issued	**4,786**	3,129	912
Common shares purchased (note 8)	**(656)**	(352)	(284)
Common share dividends	**(163)**	(125)	(114)
Deferred credits and other	**(77)**	(9)	164
Changes in non-cash working capital	**–**	(3)	(10)
Cash (used in) provided by financing activities	**(680)**	1,346	(401)
Effect of translation on foreign currency cash and cash equivalents	**10**	19	(21)
Net increase (decrease) in cash and cash equivalents	**(66)**	92	(60)
Cash and cash equivalents net of bank indebtedness, beginning of year	**130**	38	98
Cash and cash equivalents net of bank indebtedness, end of year	**64**	130	38
Cash and cash equivalents	**103**	145	38
Bank indebtedness	**39**	15	–
	64	130	38

See accompanying notes

Notes to the Consolidated Financial Statements

(tabular amounts in millions of C$, except as noted)

1. Significant Accounting Policies

The Consolidated Financial Statements of Talisman Energy Inc. (Talisman or the Company) have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). A summary of the differences between accounting principles generally accepted in Canada and those generally accepted in the United States (US) is contained in note 20 to these statements.

The Company is in the business of exploration, development, production and marketing of crude oil, natural gas and natural gas liquids.

The preparation of Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

a) Consolidation

The Consolidated Financial Statements include the accounts of Talisman and its subsidiaries. Substantially all of Talisman's activities are conducted jointly with others and the Consolidated Financial Statements reflect only the Company's proportionate interest in such activities.

b) Inventories

Product inventories are valued at the lower of average cost and market value. Materials and supplies are valued at the lower of average cost and net realizable value.

c) Property, Plant and Equipment

The successful efforts method is used to account for oil and gas exploration and development costs. Under this method, acquisition costs of oil and gas properties and costs of drilling and equipping development wells are capitalized. Exploration well costs are initially capitalized and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to dry hole expense. Exploration well costs that have found sufficient reserves to justify commercial production, but those reserves cannot be classified as proved, continue to be capitalized as long as sufficient progress is being made to assess the reserves and economic viability of the well and or related project. All other exploration costs, including geological and geophysical costs and annual lease rentals, are charged to exploration expense when incurred. Producing properties and significant unproved properties are assessed annually, or more frequently as economic events dictate, for potential impairment. Any impairment loss is the difference between the carrying value of the asset and its fair value. Fair value is calculated as the present value of estimated expected future cash flows from proved and probable reserves.

d) Depreciation, Depletion and Amortization

Capitalized costs of proved oil and gas properties are depleted using the unit of production method. For purposes of these calculations, production and reserves of natural gas are converted to barrels (bbls) on an energy equivalent basis at a ratio of six thousand cubic feet (mcf) of natural gas for one barrel of oil.

Successful exploratory wells and development costs are depleted over proved developed reserves while acquired resource properties with proved reserves, including offshore platform costs, are depleted over proved reserves. Acquisition costs of probable reserves are not depleted or amortized while under active evaluation for commercial reserves. Costs are transferred to depletable costs as proved reserves are recognized. At the date of acquisition, an evaluation period is determined after which any remaining probable reserve costs associated with producing fields are transferred to depletable costs; costs not associated with producing fields are amortized over a period not exceeding the remaining lease term.

Costs associated with significant development projects are not depleted until commercial production commences. Unproved land acquisition costs that are individually immaterial are amortized on a straight-line basis over the average lease term until properties are determined to be productive or impaired. Gas plants, net of estimated salvage values, are depreciated on a straight-line basis over their estimated remaining useful lives, not to exceed the estimated remaining productive lives of related fields. Pipelines and corporate assets are depreciated using the straight-line method at annual rates of 7% and 4% to 33%, respectively. Gas plants and pipelines in the UK and Scandinavia are depreciated using the unit of production method based on the related fields.

e) Asset Retirement Obligations

The fair value of the statutory, contractual or legal liability associated with the retirement and reclamation of tangible long-lived assets is recorded when incurred, with a corresponding increase to the carrying amount of the related assets. The increase to capitalized costs is amortized to earnings on a basis consistent with depreciation, depletion and amortization of the underlying assets. Subsequent changes in the estimated fair value of the asset retirement obligations (ARO) are capitalized and amortized over the remaining useful life of the underlying asset.

The ARO liabilities are carried on the Consolidated Balance Sheets at their discounted present value and are accreted over time for the change in their present value, with this accretion charge included in depreciation, depletion and amortization.

Actual expenditures incurred are charged against the accumulated obligation with the resulting difference recognized in income as a gain or loss.

f) Capitalized Interest

Interest costs associated with major development projects are capitalized until the necessary facilities are completed and ready for use. These costs are subsequently amortized to income with the related assets.

g) Royalties

Certain of the Company's foreign operations are conducted jointly with the respective national oil companies. These operations are reflected in the Consolidated Financial Statements based on Talisman's working interest in such activities. All other government stakes, other than income taxes, are considered to be royalty interests. Royalties on production from these joint foreign operations represent the entitlement of the respective governments to a portion of Talisman's share of crude oil, liquids and natural gas production and are recorded using rates in effect under the terms of contracts at the time of production.

h) Petroleum Revenue Tax

United Kingdom (UK) Petroleum Revenue Tax (PRT) is accounted for using the life of the field method whereby total future PRT is estimated using current reserves and anticipated costs and prices and charged to income based on net operating income as a proportion of estimated future net operating income. Changes in the estimated total future PRT are accounted for prospectively.

i) Foreign Currency Translation

The Company's functional currency is the US$. The Company's financial results have been reported in C$ as explained below.

The Company's self-sustaining operations, which include the Canadian, the UK and Norway operations, are translated into US$ using the current rate method, whereby assets and liabilities are translated at period end exchange rates while revenues and expenses are converted using average rates for the period. Gains and losses on translation to US$ relating to self-sustaining operations are deferred and included in a separate component of shareholders' equity described as cumulative foreign currency translation.

The remaining foreign operations are not considered self-sustaining and are translated using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Gains and losses on translation are reflected in income when incurred.

The Company's financial results have been reported in C$ with amounts translated to C$ as follows: assets and liabilities at the rate of exchange in effect at the applicable balance sheet date and revenues and expenses at the average exchange rates for the periods. The Company's share capital accounts, including its common shares and contributed surplus, are translated at rates in effect at the time of issuance. Unrealized gains and losses resulting from the translation to C$ are included in the cumulative foreign currency translation account.

j) Employee Benefit Plans

The cost of pensions and other retirement benefits earned by employees is determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. There is uncertainty relating to the assumptions used to calculate the net benefit plan expense and accrued benefit obligation, which are long term, consistent with the nature of employee future benefits.

The discount rate used to determine the accrued benefit obligation is determined by reference to market interest rates at the measurement date on high quality debt instruments with cash flows that match the timing and amount of expected benefit payments. For purposes of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the cumulative unamortized net actuarial gain or loss greater than 10% of the greater of the accrued benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service life of active employees. The unamortized transitional assets and obligations, and past service costs are being amortized over the average remaining service period of active employees expected to receive benefits under the benefit plans.

k) Derivative Financial Instruments and Commodity Contracts

The Company may enter into derivative financial instruments to hedge against adverse fluctuations in foreign exchange rates, electricity rates, interest rates and commodity prices. Payments or receipts on derivative financial instruments that are designated and effective as hedges are recognized in income concurrently with the hedged transaction and are recorded in the Consolidated Statements of Income and Cash Flows in the line item associated with the hedged transaction. For example, gains and losses on commodity hedges are included in revenues.

If the derivative financial instrument that has been designated as a hedge is terminated or is no longer designated as part of the hedging relationship, the gain or loss on the hedge at that date is deferred and recognized concurrently with the anticipated transaction. If it is no longer probable that the anticipated transaction will occur substantially as and when identified at the inception of the hedging relationship, the gain or loss on the hedge at that date is recognized immediately. Subsequent changes in the value of the derivative financial instrument are reflected in income. Any derivative financial instrument that is not designated as part of a hedging relationship is recorded at fair value with any resulting gain or loss reflected in income. The financial derivative contracts outstanding at December 31, 2006 are disclosed in note 11 to the Consolidated Financial Statements.

All of the Company's commodity derivative financial instruments outstanding as at December 31, 2006 met the hedging requirements under Canadian GAAP. The hedging requirements as amended by Accounting Guideline 13 (AcG 13) require the designation of a hedging relationship, including a hedged and a hedging item, identification of the risk exposure being hedged and reasonable assurance that the hedging relationship will be effective

throughout its term. In addition, in the case of anticipated transactions, it must also be probable that the transaction designated as being hedged will occur. The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that have been designated as hedges are highly effective in offsetting changes in fair value or cash flows of the hedged items.

The Company enters into physical commodity contracts in the normal course of business including contracts with fixed terms. The contracts outstanding at December 31, 2006 are disclosed in note 12 to the Consolidated Financial Statements. The Company's production is expected to be sufficient to deliver all required volumes under these contracts. No amounts are recognized in the Consolidated Financial Statements related to these contracts until such time as the associated volumes are delivered.

l) Income Taxes

Talisman uses the liability method to account for income taxes. Under the liability method, future income taxes are based on the differences between assets and liabilities reported for financial accounting purposes from those reported for income tax. Future income tax assets and liabilities are measured using substantively enacted tax rates. The impact of a change in tax rate is recognized in net income in the period in which the tax rate is substantively enacted.

Certain of the Company's contractual arrangements in foreign jurisdictions stipulate that income taxes are to be paid by the respective national oil company out of its entitlement share of production. Such amounts are included in income tax expense at the statutory tax rate in effect at the time of production.

m) Revenue Recognition

Revenues associated with the sale of crude oil, natural gas and liquids are recognized when title passes from the Company to the customer. For our international operations generally, our customers take title when the crude oil is loaded onto a tanker. The Company employs the entitlement method in accounting for crude oil sales and records a receivable from a joint interest participant if a participant sells more than its proportionate share of crude oil production. Crude oil and natural gas produced and sold, below or above the Company's working interest share in the related resource properties, results in production underliftings, or overliftings. Underliftings are recorded as inventory at the cost to produce and transport the product to storage tanks and overliftings are recorded in accounts payable and accrued liabilities. Underliftings are reversed from inventory when the crude oil is lifted and sold, with the sales proceeds recorded as revenue and the cost of the inventory expensed. Overliftings are reversed from accounts payable and accrued liabilities and recorded as revenue when sufficient volumes are produced to make up the overlifted volume. Amounts received under take-or-pay gas sales contracts in respect of undelivered volumes are accounted for as deferred income in accounts payable and accrued liabilities and recognized as revenue when volumes are delivered. Transportation expenses are reported as a separate expense and not netted off against revenue.

n) Stock-Based Compensation

Talisman has tandem stock option and stock appreciation rights, cash unit plans and deferred share units for employees and directors, which are described in note 8. As all plans may be settled for cash at the option of the holder, plans are classified as liability instruments and measured at their intrinsic value, less any unvested portion. Unvested options accrue evenly over the vesting period. The intrinsic value is determined as the difference between the market value of the Company's common shares and the exercise price of the options or units. This obligation is revalued each reporting period and the change in the obligation is recognized as stock-based compensation expense, except for the change related to deferred share units which is included in general and administrative expense.

o) Goodwill

Goodwill represents the excess purchase price over the fair value of identifiable assets and liabilities acquired in business combinations. Goodwill has been allocated to reporting units, which are comprised of one or more components of the Company's geographic segments. Goodwill is not amortized but is subject to ongoing annual impairment reviews, or more frequently as economic events dictate, based on the fair value of the reporting units. The fair value of each reporting unit is determined and compared to the book value of the reporting unit. If the fair value of the reporting unit is less than the book value, then a second test is performed to determine the amount of the goodwill impairment. The amount of the impairment is determined by deducting the fair value of the reporting unit's individual assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impairment amount.

p) Net Income and Diluted Net Income Per Share

Net income per share is calculated by dividing net income by the weighted average number of common shares outstanding. Diluted net income per share is calculated giving effect to the potential dilution that could occur if stock options were exercised in exchange for common shares.

The Company uses the treasury stock method to determine the dilutive impact of options. This method assumes that any proceeds from the exercise of options would be used to purchase common shares at the average market price during the period.

q) Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit with banks and short-term investments with an original maturity of three months or less. Cash and cash equivalents are stated at cost, which approximates market value.

r) Measurement Uncertainty

To facilitate the timely preparation of the Consolidated Financial Statements, management has made estimates and assumptions regarding certain assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the Consolidated Financial Statements. Accordingly, actual results may differ from estimated amounts.

Amounts recorded for depreciation, depletion and amortization and amounts used for impairment calculations are based on estimates of oil and natural gas reserves and commodity prices and capital costs required to develop those reserves. By their nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the Consolidated Financial Statements of future periods could be material.

Inherent in the fair value calculation of ARO are numerous assumptions and judgments, including the ultimate settlement amounts, inflation factors, credit-adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the oil and gas assets balance.

The values of pension assets and obligations and the amount of pension costs charged to net income depend on certain actuarial and economic assumptions which, by their nature, are subject to material measurement uncertainty.

s) Changes to Reporting Segments

During 2006, Talisman made changes to its reporting segments. Reclassifications have been made for all corresponding reported periods. See note 19.

t) Reclassification

Certain information provided for prior years has been reclassified to conform to the presentation adopted in the current year.

2. Discontinued Operations

United Kingdom

During the second quarter of 2006, Talisman entered into agreements to dispose of certain non-core oil and gas producing assets in the UK for proceeds of $392 million. Operating results are included in net income from discontinued operations and the related assets and liabilities are reported as assets or liabilities of discontinued operations on the Consolidated Balance Sheets. A gain on disposition of assets of $209 million, net of tax ($nil), has been recorded in net income from discontinued operations.

During the fourth quarter of 2006, Talisman entered into an agreement to dispose of additional non-core oil and gas properties for consideration of US$550 million with an effective date of January 1, 2007. Completion is expected in the fourth quarter of 2007. The proceeds of sale will be adjusted for net cash flow from the properties from January 1, 2007 until closing. The proceeds and gain on sale will be impacted by the timing of closing, foreign exchange rate movements, closing costs, interest on the sales proceeds, oil and gas prices and production volumes, together with operating results during the period to closing.

North America

During 2006, Talisman entered into agreements to dispose of certain non-core oil and gas producing assets in Western Canada for proceeds of $361 million. Operating results are included in net income from discontinued operations and the related assets and liabilities are reported as assets or liabilities of discontinued operations on the Consolidated Balance Sheets. A gain on disposition of assets of $147 million, net of tax ($61 million), has been recorded in net income from discontinued operations.

Also during 2006, Talisman announced its intention to sell all of its oil sands assets, comprised of a 1.25% indirect interest in Syncrude Canada and interests in undeveloped leases. Operating results from the Syncrude interest are included in net income from discontinued operations and the related assets and liabilities are reported as assets or liabilities of discontinued operations on the Consolidated Balance Sheets. The sale of Talisman's indirect interest in Syncrude closed subsequent to year-end for total proceeds of $477 million, consisting of cash of $234 million, net of adjustments and 8,189,655 units of Canadian Oil Sands Trust. The resulting gain of approximately $236 million, net of tax ($73 million), will be recorded in 2007 as part of discontinued operations. The Company is required to hold the Canadian Oil Sands Trust units for a minimum of four months from closing.

During the fourth quarter of 2006, Talisman announced plans to sell additional oil and gas producing assets in Western Canada. These assets are not included in the results of discontinued operations as at December 31, 2006 but are expected to be reclassified in 2007.

During 2006, the Company completed the sale of a royalty interest in an undeveloped lease for a gain of $76 million, net of tax ($32 million), which has been recorded in continuing operations.

Comparative periods for both North America and UK segments have been restated.

	For the 12 months ended December 31								
	North America			United Kingdom			Total		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Revenue									
Gross sales	**156**	218	196	**570**[1]	499[1]	384[1]	**726**	717	580
Royalties	**26**	33	32	**42**	45	33	**68**	78	65
Revenues, net of royalties	**130**	185	164	**528**	454	351	**658**	639	515
Expenses									
Operating, marketing and general	**48**	55	50	**85**	86	74	**133**	141	124
Interest[2]	**7**	1	–	**11**	2	–	**18**	3	–
Depreciation, depletion and amortization	**20**	38	44	**101**	116	127	**121**	154	171
Income from discontinued operations before income taxes	**55**	91	70	**331**	250	150	**386**	341	220
Taxes	**16**	31	24	**173**	103	61	**189**	134	85
Gain on disposition, net of tax	**147**	–	–	**209**	–	–	**356**	–	–
Net income from discontinued operations	**186**	60	46	**367**	147	89	**553**	207	135

1 Includes $58 million, $51 million and $5 million for 2006, 2005 and 2004, respectively of other revenue related to tariff and pipeline income (see note 13).

2 Interest has been allocated to discontinued operations calculated on the portion of the Acquisition Credit Facility (see note 7) that was required to be repaid with proceeds from property dispositions.

	As at December 31, 2006			As at December 31, 2005		
	North America	**United Kingdom**	**Total**	North America	United Kingdom	Total
Assets						
Current assets	**7**	**30**	**37**	22	70	92
Property, plant and equipment, net	**150**	**213**	**363**	324	553	877
Goodwill	**14**	**29**	**43**	21	49	70
Total assets[1]	**171**	**272**	**443**	367	672	1,039
Liabilities						
Current liabilities	**2**	**53**	**55**	5	42	47
Asset retirement obligations	**1**	**78**	**79**	17	80	97
Future income taxes	**–**	**22**	**22**	–	166	166
Other long-term obligations	**1**	**78**	**79**	1	105	106
Total liabilities[1]	**4**	**231**	**235**	23	393	416
Net assets of discontinued operations	**167**	**41**	**208**	344	279	623

1 In 2005, assets of $246 million and liabilities of $178 million have been classified as long term as the sale of the properties related to these assets and liabilities is expected to close later in 2007.

3. Acquisitions

The following acquisitions have been accounted for using the purchase method and the results have been included in the Consolidated Financial Statements from the dates of acquisition.

Corporate Acquisitions

In November 2005, Talisman acquired control (73%) of Paladin Resources plc (Paladin), an oil and gas exploration and development company. An additional 25% of the shares were acquired prior to year-end, resulting in a 98% ownership interest in Paladin at December 31, 2005. The 98% of Paladin was acquired for $2,560 million in cash and $74 million in long-term debt, net of cash acquired ($11 million). The acquisition has been

accounted for using the purchase method and the Paladin results have been included in the Consolidated Financial Statements of the Company from the date of acquisition. The remaining 2% of Paladin was acquired in January 2006.

Fair value of net assets acquired	United Kingdom	Scandinavia	Southeast Asia	Other	Combined
Property, plant and equipment	1,956	1,000	324	14	3,294
Net non-cash working capital	(9)	–	–	–	(9)
Goodwill	417	474	26	4	921
Fair value of derivatives	(147)	–	–	–	(147)
Future income tax	(622)	(516)	(48)	(5)	(1,191)
Asset retirement obligations	(89)	(66)	(13)	–	(168)
Non-controlling interest	(66)	–	–	–	(66)
	1,440	892	289	13	2,634

Other Acquisitions

During 2006, Talisman completed a number of minor oil and gas property acquisitions for a total cost of $204 million, net of working capital assumed of ($4 million). These acquisitions included oil and gas properties in North America, $17 million; the United Kingdom, $184 million; and Scandinavia, $3 million. The fair value of the net assets acquired has been assigned to property plant and equipment, $510 million; asset retirement obligation, ($278 million); and future income tax, ($28 million). Three transactions in the UK accounted for the majority of the acquisitions and were acquired for a total cost of $181 million as shown below.

Fair value of net assets acquired	United Kingdom
Property, plant and equipment	487
Goodwill	–
Asset retirement obligations	(278)
Future income tax	(28)
	181

During 2005, Talisman completed a number of oil and gas property and corporate acquisitions for a total cost of $536 million, comprised of $544 million in cash, assumed working capital ($12 million) and $4 million of properties exchanged. Four transactions accounted for the majority of the acquisitions and were acquired for a total cost of $515 million. These acquisitions included oil and gas properties in North America, the UK and Scandinavia.

Fair value of net assets acquired	North America	United Kingdom	Scandinavia	Combined
Property, plant and equipment	218	131	355	704
Goodwill	–	–	177	177
Asset retirement obligations	–	(7)	(74)	(81)
Future income tax	(70)	(33)	(182)	(285)
	148	91	276	515

During 2004, Talisman completed a number of oil and gas property and corporate acquisitions for a total cost of $330 million, comprised of $317 million in cash, ($1 million) of assumed working capital and $14 million of properties exchanged. Three of the transactions account for the majority of the acquisitions and were acquired for a total cost of $288 million. These three acquisitions included oil and gas properties in North America and the UK.

Fair value of net assets acquired	North America	United Kingdom	Combined
Property, plant and equipment	93	374	467
Asset retirement obligations	–	(101)	(101)
Future income tax	–	(78)	(78)
	93	195	288

Goodwill Continuity

	2006	2005
Opening balance at January 1[1]	**1,434**	441
Acquired during year	**–**	1,052
Foreign currency translation effect[2]	**109**	(59)
Closing balance at December 31[1]	**1,543**	1,434

1 $43 million (December 31, 2005 – $70 million; January 1, 2005 – $25 million) has been reclassified to assets of discontinued operations.

2 Effect of discontinued operations on foreign currency translation in 2006 is a decrease of $9 million (2005 – $1 million increase).

Goodwill has no tax basis.

4. Inventories

December 31	2006	2005
Materials and supplies	**227**	99
Product	**141**	71
	368	170

5. Property, Plant and Equipment

		Accumulated	
December 31, 2006	**Cost**	**DD&A**	**Net book value**
Oil and gas assets[1]	**25,779**	**8,190**	**17,589**
Corporate assets	**364**	**262**	**102**
	26,143	**8,452**	**17,691**

		Accumulated	
December 31, 2005	Cost	DD&A	Net book value
Oil and gas assets[1]	20,888	6,823	14,065
Corporate assets	342	211	131
	21,230	7,034	14,196

1 Net book value of $363 million (2005 – $877 million) has been reclassified to assets of discontinued operations.

In the year ended December 31, 2006, interest costs of $73 million (2005 – $19 million; 2004 – $13 million) were capitalized.

Included in property, plant and equipment are the following costs that were not subject to depreciation, depletion or amortization (DD&A) as at December 31:

Non-depleted capital at December 31	2006	2005
Acquired unproved reserve costs[1]		
North America – associated with producing fields	**10**	35
United Kingdom – associated with producing fields	**774**	587
Scandinavia – associated with producing fields	**241**	236
Southeast Asia – associated with producing fields	**63**	63
North America – not associated with producing fields	**–**	34
United Kingdom – not associated with producing fields	**381**	353
Scandinavia – not associated with producing fields	**29**	112
Other – not associated with producing fields	**9**	129
Exploration costs[2]	**769**	450
Development Projects[3]		
North America	**44**	30
United Kingdom	**1,481**	733
Scandinavia	**371**	93
Southeast Asia	**612**	369
Other	**116**	–
	4,900	3,224

1 Acquisition costs of unproved reserves are not depleted or amortized while under active evaluation for commercial reserves.

2 Exploration costs consist of drilling in progress and wells awaiting determination of proved reserves, approval of development plans or commencement of production.

3 Development projects are not depleted pending initial production.

Summary of exploration costs	Total	Less than 1 year	1 to 3 years	Greater than 3 years
North America	503	424	77	2
United Kingdom	135	98	37	–
Scandinavia	36	36	–	–
Southeast Asia	33	33	–	–
Other	62	12	29	21
	769	603	143	23

In North America, the non-depleted exploration costs increased by $175 million, as $167 million was reclassified to depletable capital, $82 million expensed to dry hole, and $424 million spent during the year was added to non-depleted exploration capital. Costs of $79 million relating to 14 wells drilled prior to 2006 continue to be capitalized, as management's ongoing assessment includes further development activity planned for 2007.

In the UK, the non-depleted exploration costs increased by $133 million, as a result of $98 million in 2006 expenditures and $35 million reclassified from prior years. Costs of $37 million relating to two wells drilled prior to 2006 continue to be capitalized, as management's ongoing assessment includes further development activity planned for 2007.

In Scandinavia, the non-depleted exploration costs increased by $22 million, as $11 million was reclassified to depletable capital, $3 million expensed to dry hole, and $36 million spent during the year was added to non-depleted exploration capital.

In Southeast Asia, the non-depleted exploration costs increased by $23 million as $10 million was reclassified to depletable capital and $33 million spent during the year was added to non-depleted exploration capital.

In other exploration areas, the non-depleted exploration costs decreased by $34 million as $11 million was reclassified to depletable capital, $36 million was expensed to dry hole and $13 million spent during the year was added to non-depleted exploration capital. Costs of $29 million relating to 4 wells drilled in 2004 and 2005 continue to be capitalized, as management's ongoing assessment includes potential development activity planned for 2007. Of the $21 million of costs drilled prior to 2004, $10 million relates to one well in Trinidad as management continues to evaluate the prospect for inclusion of the field in the potential gas development. The remaining $11 million relates to two wells in Algeria that are part of the ongoing EMK development. In 2006 six appraisal wells were drilled to delineate the EMK field. The Company expects to book proved reserves once this development is sanctioned, which is expected in 2007.

6. Asset Retirement Obligations

Total accretion for year ended December 31, 2006 of $74 million (2005 – $70 million; 2004 – $63 million) has been included in depreciation, depletion and amortization. At December 31, 2006, the estimated total undiscounted asset retirement obligations were $4.6 billion (2005 – $3.1 billion). These obligations will be settled based on the estimated useful lives of the underlying assets, the majority of which are expected to be settled within the next 30 years. The ARO has been discounted using credit-adjusted risk free rates of 5.5% in the UK and Scandinavia, and 6.4% in North America and rest of world. No amount of market risk premium has been included in the estimate of the Company's ARO liability as management does not believe there to be sufficient evidence in the oil and gas industry to estimate any such market premium.

During the years, the Company's asset retirement obligations changed as follows:

	2006	2005
ARO liability at January 1	**1,251**	1,182
Liabilities incurred during the year	**324**	275
Liabilities settled during the year	**(51)**	(32)
Accretion expense	**74**	70
Revisions in estimated cash flows	**171**	(97)
Foreign currency translation[2]	**127**	(147)
ARO liability at December 31[1,3]	**1,896**	1,251

1 $79 million (December 31, 2005 – $97 million; January 1, 2005 – $113 million) has been reclassified to liabilities of discontinued operations.

2 Effect of discontinued operations on foreign currency translation in 2006 is a decrease of $11 million (2005 – $12 million increase).

3 Included in December 31, 2006 and December 31, 2005 liabilities are $31 million and $28 million, respectively, of short-term reclamation costs recorded in accounts payable on the balance sheet for a net long-term ARO liability of $1,865 million and $1,223 million, respectively.

7. Long-Term Debt

December 31	2006	2005
Bank Credit Facilities		
5.07% Bank Credit Facilities[1,2]	494	43
5.29% Acquisition Credit Facility[2]	–	1,848
Debentures and Notes (Unsecured)[3]		
6.89% notes (US$40 million), Series B, due 2010[2,4]	47	58
5.80% medium term notes, due 2007[2]	385	385
7.125% debentures (US$175 million), due 2007[2]	204	204
6.68% notes (US$100 million), due 2008	117	117
8.06% medium term notes, due 2009	174	174
4.44% medium term notes (C$350 million, swapped to US$304 million), due 2011	354	–
5.125% notes (US$375 million), due 2015[5]	437	437
6.625% notes (£250 million), due 2017	570	501
7.25% debentures (US$300 million), due 2027	350	350
5.75% notes (US$125 million), due 2035	146	146
5.85% notes (US$500 million), due 2037	583	–
6.25% notes (US$600 million), due 2038	699	–
	4,560	4,263

1 Rate reflects the weighted average interest rate of instruments outstanding at December 31, 2006. Rate is floating rate-based and varies with changes in short-term market interest rates.

2 The amounts outstanding at December 31 have been classified as long term debt since the Company has the ability and intention to replace this debt with long-term borrowings under the revolving bank credit facilities.

3 Interest on debentures and notes is payable semi-annually except for interest on the 6.625% notes (£250 million) which is payable annually and the 6.68% notes (US$100 million), which is paid quarterly.

4 Repayable in four US$10 million annual instalments ending in 2010.

5 The interest rate on US$300 million of this debenture has been swapped to a floating rate obligation bearing interest at three-month Libor plus 0.433% (5.8068% at December 31, 2006). See note 11 to the Consolidated Financial Statements.

Bank Credit Facilities

At December 31, 2006, Talisman had unsecured credit facilities totaling $2,018 million, consisting of facilities of $1,395 million (Facility No. 1), $75 million (Facility No. 2), $200 million (Facility No. 3), $150 million (Facility No. 4) and $198 million (Facility No. 5). The maturity date of Facility No. 1 is June 30, 2011 and September 30, 2011 for Facilities 2, 3, 4 and 5, although these dates may be extended from time to time upon agreement between the Company and the respective lenders. Prior to the maturity date, the Company may borrow, repay and reborrow at its discretion except for Facility No. 5. The term date of Facility No. 5 is September 30, 2008. Until the term date, the Company may borrow, repay and reborrow at its discretion; this date can also be extended from time to time upon agreement between the Company and the lender. All facilities must be repaid on their maturity dates.

Borrowings under Facility No. 1 are available in the form of prime loans, C$ or US$ bankers' acceptances, US$ base rate loans or LIBOR-based loans. In addition, drawings to a total of $698 million are available in the form of letters of credit. Borrowings under Facility No. 2 are available in the form of prime loans, C$ or US$ guaranteed notes, US$ base rate loans and LIBOR-based loans. Borrowings under Facility No. 3 are available in the form of prime loans, C$ or US$ bankers' acceptances, US$ base rate loans, LIBOR-based loans and letters of credit. Borrowings under Facility No. 4 are available in the form of prime loans, C$ or US$ banker's acceptances, US$ base rate loans and LIBOR-based loans. Borrowings under Facility No. 5 are available in the form of prime loans, C$ or US$ guaranteed notes, US$ base rate loans and LIBOR-based loans. See note 12 for a summary of letters of credit.

Acquisition Credit Facility

In connection with the funding of the acquisition of Paladin, the Company arranged a $2,605 million (£1,300 million), unsecured non-revolving acquisition credit facility maturing in October 2006. At December 31, 2005, $1,848 million was drawn on this facility. The balance was repaid and the facility cancelled during 2006.

Paladin Credit Facility

During 2006, borrowings under the Paladin US$600 million senior credit facility ($43 million at December 31, 2005) were repaid and the facility was cancelled.

Notes Payable

In the first quarter of 2006, Talisman completed a US$500 million offering of 5.85% notes due February 1, 2037 and a $350 million offering of 4.44% notes due January 27, 2011. Interest on both notes is paid semi-annually. The $350 million offering was immediately swapped into US$304 million 5.054% debt. The proceeds from these note offerings were used to repay a portion of the then outstanding acquisition credit facility.

In the fourth quarter of 2006, Talisman completed a US$600 million offering of 6.25% notes due February 1, 2038. Interest on the note is paid semi-annually.

Repayment Schedule

The Company's contractual minimum repayments of long-term debt are as follows:

Year	
2007[1]	601
2008	128
2009	186
2010	12
2011	848
Subsequent to 2011	2,785
Total	4,560

1 The portion of long-term debt payable in 2007 has been classified as long-term debt since the Company has the ability and intention to replace this debt with long-term borrowings under the revolving bank credit facilities.

8. Share Capital

In May 2006, the Company implemented a three-for-one share split of its issued and outstanding common shares. All references to net income per share, diluted net income per share, weighted average number of common shares outstanding, common shares issued and outstanding and options and cash units granted, exercised and forfeited have been retroactively restated to reflect the impact of the Company's three-for-one share split.

Talisman's authorized share capital consists of an unlimited number of common shares without nominal or par value and first and second preferred shares. No preferred shares have been issued.

	2006		2005		2004	
Continuity of common shares	**Shares**	**Amount**	Shares	Amount	Shares	Amount
Balance, beginning of year	**1,098,783,945**	**2,609**	1,125,555,870	2,666	1,151,988,552	2,725
Issued on exercise of options	**438,860**	**8**	495,375	8	548,700	5
Purchased during year	**(35,294,400)**	**(84)**	(27,267,300)	(65)	(26,962,200)	(64)
Cancelled pursuant to terms of plans of arrangement	**–**	**–**	–	–	(19,182)	–
Balance, end of year	**1,063,928,405**	**2,533**	1,098,783,945	2,609	1,125,555,870	2,666

During the year ended December 31, 2006, Talisman repurchased 35,294,400 common shares of the Company pursuant to a Normal Course Issuer Bid (NCIB) for a total of $659 million (2005 – 27,267,300 for $355 million; 2004 – 26,962,200 for $286 million). The cost to repurchase common shares in excess of their average book value has been charged to retained earnings and contributed surplus.

In December 2006, Talisman amended its current NCIB. The amendment increases the maximum number of common shares that Talisman may purchase over the 12-month period of the NCIB ending March 27, 2007 to the maximum permitted by the TSX, being 10% of the public float on March 22, 2006. The amended maximum is 109,767,000 common shares. Subsequent to year-end, Talisman repurchased 15,513,400 shares for a total of $299 million, leaving a maximum of 58,959,200 shares available for repurchase prior to the expiry of the NCIB. In addition, 103,300 stock options were exercised for shares, resulting in 1,048,518,305 common shares outstanding as at March 1, 2007.

In 2006, Talisman did not cancel any common shares of the Company (2005 – nil shares; 2004 – 19,182 shares) pursuant to the terms of the offering agreements of certain past corporate acquisitions.

a) Stock Option Plan

Talisman has stock option plans (ESOP) that grants options to employees and directors. All options issued by the Company permit the holder to purchase one common share of the Company at the stated exercise price or to receive a cash payment equal to the appreciated value of the stock option. Options granted prior to 2006 are generally exercisable after three years and expire 10 years after the grant date. Commencing in 2006,

options granted to new employees vest evenly on an annual basis over a three-year period. Option exercise prices approximate the market price for the common shares on the date the options are granted.

	2006		2005		2004	
Continuity of stock options	Number of options	Average exercise price ($)	Number of options	Average exercise price ($)	Number of options	Average exercise price ($)
Outstanding at January 1	**64,485,717**	**8.71**	62,365,125	6.53	70,798,788	5.85
Granted	**10,496,690**	**19.67**	17,763,390	14.05	11,086,740	8.56
Exercised for common shares	**(438,860)**	**6.55**	(495,375)	5.52	(548,700)	4.25
Exercised for cash payment	**(9,439,024)**	**6.12**	(14,496,327)	5.89	(18,069,723)	5.16
Forfeited	**(1,183,375)**	**15.04**	(651,096)	10.29	(901,980)	7.04
Outstanding at December 31	**63,921,148**	**10.79**	64,485,717	8.71	62,365,125	6.53
Exercisable at December 31	**27,606,033**	**6.45**	17,621,862	5.79	23,194,434	5.24
Options available for future grants pursuant to the Company's Stock Option Plans	**47,501,367**		47,375,658		49,991,625	

The range of exercise prices of the Company's outstanding stock options is as follows:

	Outstanding Options			Exercisable Options	
December 31, 2006 Range of exercise prices ($)	Number of options	Weighted average exercise price ($)	Weighted average years to expiry	Number of options	Weighted average exercise price ($)
2.86 – 4.99	**4,414,560**	**3.90**	**2**	**4,414,560**	**3.90**
5.00 – 9.99	**32,537,058**	**7.28**	**6**	**22,579,743**	**6.72**
10.00 – 14.99	**16,594,260**	**14.00**	**8**	**504,930**	**14.02**
15.00 – 20.70	**10,375,270**	**19.62**	**9**	**106,800**	**19.69**
2.86 – 20.70	**63,921,148**	**10.79**	**7**	**27,606,033**	**6.45**

The mark-to-market liability for the stock option plans as at December 31, 2006 was $542 million (2005 – $657 million).

Subsequent to December 31, 2006, 2,792,409 options were exercised for cash, 103,300 options were exercised for shares, 94,855 options were granted and 26,915 were cancelled, with 61,093,379 options outstanding at March 1, 2007.

b) Cash Unit Plan

In addition to the Company's stock option plans, Talisman's subsidiaries issue stock appreciation rights under the cash unit plan. Cash units are similar to stock options except that the holder does not have a right to purchase the underlying share of the Company. Units granted under the cash unit plan are generally exercisable after three years and expire 10 years after the grant date.

	2006		2005		2004	
Continuity of stock options	Number of units	Average exercise price ($)	Number of units	Average exercise price ($)	Number of units	Average exercise price ($)
Outstanding at January 1	**7,351,065**	**9.90**	4,579,920	7.11	3,460,545	6.61
Granted	**2,107,215**	**19.67**	2,991,930	14.07	1,197,225	8.54
Exercised	**(1,006,652)**	**6.61**	(29,700)	6.60	–	–
Forfeited	**(99,300)**	**16.44**	(191,085)	9.21	(77,850)	6.60
Outstanding at December 31	**8,352,328**	**12.68**	7,351,065	9.90	4,579,920	7.11
Exercisable at December 31	**2,411,293**	**6.93**	–	–	–	–

The range of exercise prices of the Company's cash units is as follows:

December 31, 2006 Range of exercise prices ($)	Outstanding Units Number of units	Weighted average exercise price ($)	Weighted average years to expiry	Exercisable Units Number of units	Weighted average exercise price ($)
6.60 – 9.99	**3,397,318**	**7.26**	**7**	**2,335,543**	**6.67**
10.00 – 14.99	**2,849,370**	**14.00**	**8**	**67,050**	**14.02**
15.00 – 20.41	**2,105,640**	**19.63**	**9**	**8,700**	**19.69**
6.60 – 20.41	**8,352,328**	**12.68**	**8**	**2,411,293**	**6.93**

The mark-to-market liability for the cash unit plans as at December 31, 2006 was $54 million (2005 – $56 million).

Subsequent to December 31, 2006, 49,250 cash units were exercised, 40,050 cash units were granted and 2,775 were cancelled, with 8,340,353 cash units outstanding at March 1, 2007.

c) Deferred Share Units

Talisman also issues deferred share units to directors in lieu of cash compensation. Each deferred share unit (DSU) represents the right to receive a cash payment on retirement equal to the market value of the Company's shares at the time of surrender. Dividends are credited as additional DSUs when paid. As at December 31, 2006, there were 261,390 (2005 – 202,332) units outstanding. The mark-to-market liability of $5 million (2005 – $4 million) is included in accounts payable and accrued liabilities on the Consolidated Balance Sheets. Expense related to the DSUs is recognized in general and administrative expense on the Consolidated Statements of Income.

d) Stock-Based Compensation

For the year ended December 31, 2006, the Company recorded stock-based compensation expense of $51 million (2005 – $633 million; 2004 – $171 million) relating to its stock option and cash unit plan. The Company paid cash of $159 million (2005 – $153 million; 2004 – $82 million) to employees in settlement of fully accrued option liabilities for options exercised. In addition, the Company recovered capitalized stock-based compensation expense of $3 million in 2006 (2005 – $15 million capitalized; 2004 – nil).

Years ended December 31	2006	2005	2004
Average exercise price ($)	**21.42**	16.41	9.69
Average grant price	**6.17**	5.89	5.16
Average gain per exercise ($)	**15.25**	10.52	4.53
Number of options and cash units exercised	**10,445,676**	14,526,027	18,069,723
Cash payments ($ millions)	**159**	153	82

Of the combined mark-to-market liability for the stock option and cash unit plans of $596 million as at December 31, 2006 (2005 – $713 million), $554 million (2005 – $630 million) is included in accounts payable and accrued liabilities on the Consolidated Balance Sheets.

9. Other Long-Term Obligations

The balance in other long-term obligations consists of the following:

	2006	2005
Pensions and other post-retirement benefits[1]	**51**	39
Mark-to-market liability for stock-based compensation	**42**	83
Fair value of commodity price derivatives acquired[2]	**(3)**	47
Discounted obligations on capital leases[3]	**37**	40
Other	**30**	7
Closing balance at December 31	**157**	216

1 $1 million (December 31, 2005 – $1 million) has been reclassified to liabilities of discontinued operations.

2 As a result of the acquisition of Paladin, Talisman acquired commodity price derivative contracts, which extend to the end of 2008. The mark-to-market liability recorded on acquisition will be amortized to revenue over the remaining life of the underlying derivative contracts. Of the total amount outstanding at December 31, 2006, $42 million (2005 – $84 million) is included in accounts payable and accrued liabilities.

3 During 2005, the Company entered into a leasing arrangement for the modification, refitting and use of a floating storage and offloading vessel (FSO) for use at the South Angsi development in Malaysia. An element of the leasing arrangement has been defined by the Company as a capital lease. The future minimum lease payments are US$5 million for each of the next five years and US$23 million for the remainder of the lease. The imputed rate of interest on the lease is 6% and the lease expires in 2016. Of the total discounted liability of $43 million (2005 – $46 million), $6 million (2005 – $6 million) is included in accounts payable and accrued liabilities.

10. Cumulative Foreign Currency Translation

In accordance with the Company's foreign exchange translation accounting policy, as disclosed in note 1(i), foreign exchange gains or losses on translation of self-sustaining foreign operations and the translation of the Company's financial results into C$ for reporting purposes are included in shareholders' equity in the cumulative foreign currency translation account.

The following components give rise to the exchange gains or (losses) included in the cumulative foreign currency translation account as at December 31:

	2006	2005
Property, plant and equipment	**(401)**	(1,218)
Future tax liabilities (including PRT)	**(103)**	202
Asset retirement obligations	**22**	160
Long-term debt	**551**	634
Working capital	**27**	49
Goodwill	**26**	(92)
	122	(265)

11. Financial Instruments

Commodity Price Derivative Contracts

The Company enters into crude oil and natural gas price derivative contracts to reduce the volatility of the Company's cash flows associated with anticipated sales of these commodities. The majority of the Company's outstanding commodity price derivative contracts at the end of 2006 have been designated as hedges of the Company's anticipated future commodity sales and, as such, gains and losses on these contracts are realized in income over the terms of the contracts. The Company had the following commodity price derivative contracts outstanding at December 31, 2006:

Crude Oil Derivatives

Fixed price swaps	Hedge type	Term	bbls/d	$/bbl
Fixed price swaps (Dated B rent index)	cash flow	2007 Jan-Jun	5,801	41.02
Fixed price swaps (Dated B rent index)	cash flow	2007 Jul-Dec	5,707	40.31
Fixed price swaps (Dated B rent index)	cash flow	2008 Jan-Jun	2,473	59.63
Fixed price swaps (Dated B rent index)	cash flow	2008 Jul-Dec	815	60.00

Two-way collars	Hedge type	Term	bbls/d	Floor $/bbl	Ceiling $/bbl
Two-way collars (WTI)	cash flow	2007 Jan-Dec	20,000	70.00	90.84

Natural Gas Derivatives

Fixed price swaps	Hedge type	Term	mcf/d	$/mcf
Fixed price swaps (AECO index)	cash flow	2007 Apr-Oct	32,110	7.64

Two-way collars	Hedge type	Term	mcf/d	Floor $/mcf	Ceiling $/mcf
Two-way collars (AECO index)	cash flow	2007 Jan-Dec	59,633	8.18	12.21
Two-way collars (AECO index)	cash flow	2007 Apr-Oct	41,284	8.81	11.53

During the first quarter of 2006, the Company settled fixed price oil swaps for a notional 820 bbls/d covering the period April 1, 2006 to December 31, 2007 for a loss of $5 million. These contracts were designated as a hedge of anticipated future oil sales and, consequently, the loss has been deferred and will be recognized over the period ending December 31, 2007.

During the third quarter of 2006, the Company entered into derivative contracts in the form of two-way collars, hedging production of 20,000 bbls/day of crude oil and 59,633 mcf/day of natural gas for the 2007 calendar year. These contracts have been designated as hedges of the Company's anticipated future commodity sales.

During the fourth quarter of 2006, the Company entered into derivative contracts in the form of fixed price swaps hedging production of 32,110 mcf/d of gas for the period covering April to October 2007. These contracts have been designated as hedges of the Company's anticipated future commodity sales.

Also during the fourth quarter of 2006, the Company settled its two-way AECO collars covering the period November 1, 2006 to March 31, 2007 and a notional volume of 59,633 mcf/d for a gain of $32 million. These contracts were designated as a hedge of anticipated future gas sales and, consequently, the gain will be recognized over the period ending March 31, 2007.

Subsequent to year-end, the Company entered into natural gas derivative contracts priced at AECO in the form of two-way collars covering the period April 1, 2007 to October 31, 2007 for notional volume of 27,523 mcf/d of natural gas with a ceiling of $7.97 and a floor of $7.00. The Company also

entered into AECO fixed-price swaps covering the period April 1, 2007 to October 31, 2007 for a notional volume of 36,697 mcf/d with a fixed price of $7.58. In addition, the Company entered into fixed-price swaps of the UK (IPE) natural gas price covering the period from October 1, 2008 to June 30, 2011, for notional volume of 260,000 Therms/d declining over the period to a final notional volume of 180,000 Therms/d in the second quarter of 2011 with an average fixed price of $0.83/therm. These contracts have not been designated as hedges of the Company's anticipated future commodity sales, and as such are expected to increase the volatility of net income as changes in the fair value of these derivative instruments will be charged through net income.

Also subsequent to year-end, the Company settled a portion of its 2007, ($90.84/$70.00) WTI costless collars covering a notional volume of 10,000 bbls/d for a gain of $40 million which will be deferred and amortized over the period ending December 31, 2007, the term of the original hedge.

Interest Rate and Foreign Exchange Derivative Contracts

During 2005, in order to hedge a portion of the fair value risk associated with the US$375 million 5.125% notes due 2015, the Company entered into fixed to floating interest rate swap contracts with a total notional amount of US$300 million that expire on May 15, 2015. These swap contracts require Talisman to pay interest at a rate of three-month US$ Libor plus 0.433% while receiving payments of 5.125% semi-annually. These contracts have been designated as a hedge of the fair value of a portion (US$300 million) of the total US$375 million notes issued in May 2005.

Effective January 1, 2004, certain US$ cross currency swap contracts and interest rate swap contracts were no longer designated as hedges of the Eurobond and the Company recorded a deferred gain of $17 million, which is being amortized over the period to 2009, the original term of the contracts. The contracts were subsequently terminated in 2004 and the Company continues to amortize the deferred gain.

The Company's operations in Canada, the UK and Norway are largely self-sustaining and their economic exposure is more closely tied to their respective domestic currencies. Accordingly, these operations are measured in UK pounds sterling (UK£) and C$, respectively. Currently, the Company's foreign exchange translation exposure principally relates to US$ denominated UK, Norwegian and Canadian oil sales.

The Eurobond debt denominated in UK£ and the Company's C$ debt are designated as hedges of the Company's net investments in the UK and Canadian self-sustaining operations, respectively. As such, the unrealized foreign exchange gains and losses resulting from the translation of this debt are deferred and included in a separate component of shareholders' equity described as cumulative foreign currency translation.

Carrying Amounts and Estimated Fair Values of Financial Instruments

Asset (liability) at December 31	2006			2005		
	Carrying Value	**Fair Value**	**Unrecognized**	Carrying Value	Fair Value	Unrecognized
Long-term debt	**(4,560)**	**(4,436)**	**124**	(4,263)	(4,423)	(160)
Cross currency and interest rate swaps	**–**	**(14)**	**(14)**	(1)	(7)	(6)
Natural gas derivatives	**–**	**55**	**55**	(4)	9	13
Crude oil derivatives	**(39)**	**10**	**49**	(126)	(163)	(37)

Borrowings under bank credit facilities are for short terms and are market rate based; thus, carrying value approximates fair value. The fair value of debentures and notes is based on market quotations, which reflect the discounted present value of the principal and interest payments using the effective yield at December 31 for instruments having the same term and risk characteristics. Fair values for interest rate derivative instruments are determined based on the estimated cash payment or receipt necessary to settle the contract at December 31. Cash payments or receipts are based on discounted cash flow analysis using current market rates and prices. Fair values for commodity and foreign exchange derivatives are based on forward pricing curves as at December 31.

The fair values of other financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximate their carrying values.

Interest Rate Risk

Drawings under the Company's bank credit facilities are at floating interest rates and expose the Company to interest rate risk. The Company is also exposed to interest rate risk on maturity and refinancing of its fixed rate debt.

Credit Risk

A significant portion of the Company's accounts receivable is due from entities in the oil and gas industry. Concentration of credit risk is mitigated by having a broad domestic and international customer base, which includes a significant number of companies engaged in joint operations with Talisman. The Company routinely assesses the financial strength of its joint participants and customers, including parties involved in marketing or other commodity arrangements. At December 31, 2006, the Company's largest credit exposure to a single party was approximately $112 million.

The Company is exposed to credit risk associated with possible non-performance by derivative instrument counterparties. The Company actively limits the total exposure to individual counterparties.

12. Contingencies and Commitments

From time to time, Talisman is the subject of litigation arising out of the Company's operations. Damages claimed under such litigation, including the litigation discussed below, may be material or may be indeterminate and the outcome of such litigation may materially impact the Company's financial condition or results of operations. While Talisman assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defending itself against such litigation. These claims are not currently expected to have a material impact on the Company's financial position.

On September 12, 2006, the United States District Court for the Southern District of New York (the Court) granted Talisman's Motion for Summary Judgment, dismissing the lawsuit brought against Talisman by the Presbyterian Church of Sudan and others under the Alien Tort Claims Act. The lawsuit alleged that the Company conspired with, or aided and abetted, the Government of Sudan to commit violations of international law in connection with the Company's now disposed of interest in oil operations in Sudan. The plaintiffs have twice attempted to certify the lawsuit as a class action. In March 2005 and in September 2005, the Court rejected the plaintiffs' effort to certify two different classes (or groups) of plaintiffs. On July 19, 2006, the Second Circuit Court of Appeals denied the plaintiffs' request to appeal the Court's refusal to certify the lawsuit as a class action. The plaintiffs have appealed the Court's decision granting Talisman's Motion for Summary Judgment and all prior rulings to the Second Circuit Court of Appeals. Talisman believes the lawsuit is entirely without merit and will continue to vigorously defend itself. Talisman does not expect the lawsuit to have a material adverse effect on it.

Talisman's estimated total undiscounted future ARO at December 31, 2006 was $4.6 billion (2005 – $3.1 billion), approximately 68% of which is denominated in UK£. At December 31, 2006, Talisman had accrued $1,975 million (2005 – $1,348 million) of this liability. The Company has provided letters of credit, effective January 1, 2007 in an amount of $809 million, of which the majority were provided as security for the costs of future dismantlement, site restoration and abandonment obligations in the UK ($674 million). The remaining outstanding letters of credit primarily relate to a retirement compensation arrangement, guarantees of minimum work commitments and abandonment obligations in other areas. In addition, the Company has issued guarantees as security for certain minimum work, future dismantlement, site restoration and abandonment obligations in lieu of letters of credit.

Talisman leases certain of its ocean-going vessels and corporate offices, all of which, with the exception of the leasing arrangement as described in note 9 to the Consolidated Financial Statements, are accounted for as operating leases. In addition to the minimum lease payments, Talisman has ongoing operating commitments associated with the vessels. The term of the Ross Floating Production, Storage and Offloading vessel (FPSO) lease depends on the expected life of the Ross/Blake fields.

Estimated Future Minimum Commitments[1]

	2007	2008	2009	2010	2011	Subsequent to 2011	Total
Office leases	34	29	27	25	25	74	214
Vessel leases[2]	190	103	102	55	9	27	486
Transportation and processing commitments[3]	168	96	93	91	90	576	1,114
Minimum work commitments	280	127	54	35	6	–	502
Abandonment obligations	52	31	35	19	20	4,443	4,600
Other service contracts[4]	897	690	548	207	24	24	2,390
Total	1,621	1,076	859	432	174	5,144	9,306

1 Future minimum payments denominated in foreign currencies have been translated into C$ based on the December 31, 2006 exchange rate.

2 Includes the future minimum lease payments of assets under capital lease.

3 Certain of the Company's transportation commitments are tied to firm gas sales contracts.

4 Other service contracts consist primarily of drilling rig commitments to meet a portion of the Company's future drilling requirements.

During 2004, the Company signed a long-term contract to sell 810 bcf of Corridor natural gas to West Java, over a 17-year period with gas sales commencing in 2007, at a price of US$1.91/mcf, with no associated transportation costs. The Company anticipates having sufficient production to meet all future delivery commitments.

Talisman has firm commitments for gathering, processing and transportation services that require the Company to pay tariffs to third parties for processing or shipment of certain minimum quantities of crude oil and liquids and natural gas. The Company anticipates having sufficient production to meet these commitments.

The Company has also entered into sales contracts for a portion of its future North American natural gas production. The following are the average volumes under contract and the weighted average contract price in each of the years shown. The Company has sufficient future production to meet these fixed price sales contracts as the volumes represent less than 2% of the anticipated future North American production.

Natural Gas (North America)

Fixed price sales	2007	2008	2009	2010	2011
Volumes (mcf/d)	12,800	3,552	3,552	3,552	3,552
Weighted average price ($/mcf)	3.93	3.31	3.41	3.50	3.61

Talisman is in negotiations for the construction and long term lease of an offshore production and storage facility for the Talisman operated (70% WI) Yme field in Norway. Upon completion and delivery of the facility in 2009, the joint venture would lease the facility for an initial five year period, however this term can be extended by up to an additional 17 years. Talisman's share of the minimum lease payments over the initial five year period is expected to be approximately $64 million per year, which has not been included in the Estimated Future Minimum Commitments table above. This agreement is currently expected to be signed in late March 2007.

13. Other Revenue

Years ended December 31	**2006**	2005	2004
Pipeline and custom treating tariffs[1]	**103**	88	68
Investment income	**13**	14	9
Marketing income	**3**	10	3
	119	112	80

1 $58 million (2005 – $51 million; 2004 – $5 million) has been reclassified to income from discontinued operations.

14. Other Expenses

Years ended December 31	**2006**	2005	2004
Net (gain) loss on asset disposals	**(106)**	(3)	30
Foreign exchange (gain) loss	**24**	(7)	30
Property impairments	**–**	31	31
Gain on derivatives settlement	**–**	–	(15)
Wind farm	**22**	–	–
Miscellaneous interest	**21**	6	3
Other expense	**10**	12	10
	(29)	39	89

15. Taxes

Income Taxes

The current and future income taxes related to continuing operations for each of the three years ended December 31 are as follows:

	2006	2005	2004
Current income taxes			
North America	**31**	95	43
United Kingdom	**67**	242	201
Scandinavia	**215**	236	14
Southeast Asia	**334**	291	134
Other	**105**	114	35
	752	978	427
Future income taxes (recovery)			
North America	**(107)**	129	(88)
United Kingdom	**705**	126	(17)
Scandinavia	**(16)**	(72)	(19)
Southeast Asia	**(5)**	(34)	9
Other	**(25)**	(22)	(28)
	552	127	(143)
Income taxes	**1,304**	1,105	284

The components of the net future tax liability related to continuing operations at December 31 are as follows:

	2006	2005
Future tax liabilities		
Property, plant and equipment	**5,106**	3,839
Pension assets	**15**	19
Other	**250**	169
	5,371	4,027
Future tax assets		
Provision for asset retirement obligations	**912**	538
Other	**109**	122
	1,021	660
Net future tax liability	**4,350**	3,367

Future distribution taxes associated with operations in the UK have not been recorded because, based on current plans, repatriation of funds in excess of foreign reinvestment will not result in material amounts of tax expense. Unremitted earnings in other foreign jurisdictions are not material.

Income taxes vary from the amount that would be computed by applying the Canadian statutory income tax rate of 29.37% for the year ended December 31, 2006 (2005 – 34.13%; 2004 – 34.13%) to income from continuing operations before taxes as follows:

Years ended December 31	2006	2005	2004
Income taxes calculated at the Canadian statutory rate	**894**	902	323
Increase (decrease) in income taxes resulting from:			
Non-deductible royalties, mineral taxes and expenses	**17**	84	104
Resource allowances	**(14)**	(63)	(84)
Change in statutory tax rates	**113**	–	(50)
Non-taxable expense (income)	**(24)**	19	33
Deductible PRT expense	**(82)**	(27)	(43)
Higher foreign tax rates	**422**	160	18
Provincial rebates and credits	**(1)**	(7)	1
Federal tax on large corporations	**–**	9	9
Other	**(21)**	28	(27)
Income taxes	**1,304**	1,105	284

Petroleum Revenue Taxes

PRT expense primarily relates to the UK and is comprised of current tax expense of $256 million (2005 – $147 million; 2004 – $124 million) and deferred tax expense of $34 million (2005 – $37 million; 2004 – $4 million). The measurement of PRT expense and the related provision in the Consolidated Financial Statements is subject to uncertainty associated with future recovery of oil and gas reserves, commodity prices and the timing of future events, which could result in material changes to deferred amounts.

16. Supplemental Cash Flow Information

Years ended December 31	2006	2005	2004
Items not involving cash			
Depreciation, depletion and amortization	**2,005**	1,689	1,479
Property impairments	**–**	31	31
Dry hole	**296**	241	311
Net (gain) loss on asset disposals	**(106)**	(3)	30
Stock-based compensation	**(108)**	480	89
Future taxes and deferred PRT (recovery)	**586**	165	(139)
Other	**17**	28	19
	2,690	2,631	1,820
Cash interest paid (net of capitalized interest)	**184**	171	165
Cash income taxes paid	**1,173**	757	289

Changes in operating non-cash working capital consisted of the following:

Years ended December 31	**2006**	2005	2004
Accounts receivable	**197**	(175)	(72)
Inventories	**(182)**	(64)	19
Prepaid expenses	**(9)**	(2)	–
Asset retirement obligations expenditures	**(50)**	(32)	(29)
Accounts payable and accrued liabilities	**(93)**	254	103
Income and other taxes payable	**(237)**	218	182
Net source (use) of cash	**(374)**	199	203

17. Weighted Average Shares and Fully Diluted Shares Outstanding

	2006	2005	2004
Weighted average number of common shares outstanding (millions) – basic	**1,092**	1,104	1,149
Dilution effect of stock options (millions)	**30**	27	21
Weighted average number of commons shares outstanding (millions) – diluted	**1,122**	1,131	1,170

Outstanding stock options are the only instruments that are currently dilutive to earnings per share. For 2006, 2,548,433 stock options that were antidilutive have been excluded from the computation of diluted earnings per share (2005 – 5,389,872; 2004 – 87,300).

18. Employee Benefits

The Company sponsors both defined benefit and defined contribution pension arrangements covering substantially all employees. Defined benefit pension plans are based on years of service and final average salary. The defined pension benefits in the UK and Norway, which account for 41% of the accrued benefit obligation as at December 31, 2006, will increase at the rate of inflation. Although the Company has no commitment to provide for increases related to inflation on the remainder of its defined benefit pension plans, the benefits have increased annually by one-half of the rate of inflation.

The Company uses actuarial reports prepared by independent actuaries for funding and accounting purposes. The Company uses a December 31 measurement date for the majority of its defined benefit pension plans. The most recent actuarial valuation of the benefit plans for funding purposes was as of December 31, 2005, with the next valuation as of December 31, 2006, planned for the second quarter of 2007. The following significant actuarial assumptions were employed to determine the periodic pension expense and the accrued benefit obligations:

	2006	2005	2004
Accrued benefit obligation			
Discount rate (%)	**5.1**	4.9	5.6
Rate of compensation increase (%)	**4.5**	4.3	4.3
Benefit expense			
Discount rate (%)	**4.9**	5.6	5.9
Expected long-term rate of return on plan assets (%)	**6.8**	7.0	7.0
Assumed health care cost trend rates			
Initial health care cost trend rate (%)	**10.0**	10.0	10.0
Health care cost trend rate declines to (%)	**5.0**	5.0	5.0
Year that the cost trend rate reaches final rate	**2018**	2018	2018

The Company's net benefit plan expense is as follows:

	2006	2005	2004
Current service cost – defined benefit	12	10	10
Current service cost – defined contribution	11	8	8
Interest cost	10	10	10
Plan amendments	–	–	3
Actual return on plan assets	(31)	(16)	(17)
Actuarial loss on accrued benefit obligation	35	19	6
Costs arising in the period	37	31	20
Differences between costs arising in the period and net benefit plan expense			
Return on plan assets	19	4	6
Plan amendments	–	–	(3)
Actuarial (gain) loss	(31)	(14)	7
Amortization of net transitional asset	–	(2)	(2)
Net benefit plan expense	25	19	28

Information about the Company's defined pension benefit plans is as follows:

	2006		2005	
	Pension plans grouped by funded status		Pension plans grouped by funded status	
	Surplus	Deficit[1]	Surplus	Deficit[1]
Accrued benefit obligation				
Accrued benefit obligation, beginning of year	67	142	95	80
Current service cost	1	11	6	4
Interest cost	3	7	5	5
Actuarial losses (gains)	(1)	36	10	9
Plan participants' contributions	–	1	1	–
Benefits paid	(3)	(2)	(3)	(2)
Plan amendments	–	–	–	–
Other	–	2	–	(1)
Accrued benefit obligation, end of year	67	197	114	95
Plan assets				
Fair value of plan assets, beginning of year	111	81	152	29
Actual gain on plan assets	15	17	16	1
Employer contributions	–	12	6	4
Plan participants' contributions	–	1	1	–
Surplus applied to defined contribution plan	(11)	–	(8)	–
Benefits paid	(3)	(2)	(3)	(2)
Expenses	(1)	–	(1)	–
Other	–	–	–	(3)
Fair value of plan assets, end of year	111	109	163	29
Funded status – surplus (deficit)[2]	44	(88)	49	(66)
Unamortized net actuarial losses	11	46	14	30
Unamortized prior service cost	–	4	–	3
Unamortized net transitional (asset) obligation	(5)	3	(6)	3
Net accrued benefit asset (liability)	50	(35)	57	(30)

1 The net accrued benefit liability for pension plans with a deficit funding status is included in other long-term obligations on the Consolidated Balance Sheets.
2 The funding deficit on the retirement compensation agreement is secured by letters of credit.

The net benefit plan expense of $25 million for the year ended December 31, 2006 (2005 – $19 million; 2004 – $28 million) is determined by using actuarial assumptions, including expected return on plan assets, and includes the amortization of net actuarial losses and net transitional assets and obligations as described in note 1(j).

The composition of the plan assets as a percentage of fair value is as follows:

	2006	2005	2004
Equity securities (%)	**79**	76	76
Fixed income (%)	**20**	24	23
Cash (%)	**1**	–	1
	100	100	100

The approximate target allocation percentage for the Canadian employee and executive plans that account for 53% of total plan assets is 70% equities, 30% bonds and expected return on assets is 7.9% for equities and 4.5% for bonds. The Company's plan assets do not include any common shares of Talisman.

The projected future benefit payments are as follows:

	2007	2008	2009	2010	2011	2012 - 2016
	7	8	8	9	10	66

At December 31, 2006, the actuarial net present value of the accrued benefit obligation for other post-retirement benefit plans was $12 million (2005 – $13 million; 2004 – $12 million). The other post-retirement benefit plans provide medical, dental and life benefits for active and retired employees. The effect of a one-percentage point change in the assumed health care cost trend rates on accrued benefit obligations and benefit costs would be immaterial.

19. Segmented Information

Talisman's activities are conducted in five geographic segments: North America, UK, Scandinavia, Southeast Asia, and Other. North America includes operations in Canada and the US. The UK segment includes operations in the UK and the Netherlands. Scandinavia includes operations in Norway and Denmark. The Southeast Asia segment includes operations in Indonesia, Malaysia, Vietnam and Australia. The Other segment includes operations in Algeria, Tunisia, Trinidad and Tobago as well as other international areas. All activities relate to the exploration, development, production and transportation of oil, liquids and natural gas.

In 2006, Talisman redefined its reporting segments to those described above. In 2005, the UK and Scandinavia were reported in aggregate as the North Sea, Alaska was included in the Other reporting segment and excluded from the North America segment, and operations in North Africa (Algeria, Tunisia) and Trinidad and Tobago were reported as separate segments. All prior periods have been restated to conform to the current presentation including results of discontinued operations.

(millions of C$)	North America[1] 2006	2005	2004	United Kingdom[2] 2006	2005	2004	Scandinavia[3] 2006	2005	2004
Revenue									
Gross sales									
Oil and liquids	**1,003**	972	784	**2,380**	2,184	1,846	**864**	600	106
Natural gas	**2,326**	2,929	2,128	**96**	74	51	**26**	14	3
Synthetic oil	**–**	–	–	**–**	–	–	**–**	–	–
Sulphur	**3**	10	7	**–**	–	–	**–**	–	–
Total gross sales	**3,332**	3,911	2,919	**2,476**	2,258	1,897	**890**	614	109
Hedging (gain) loss	**(86)**	78	151	**20**	(1)	329	**–**	–	–
Royalties	**632**	783	567	**5**	10	3	**4**	–	1
Net sales	**2,786**	3,050	2,201	**2,451**	2,249	1,565	**886**	614	108
Other	**78**	76	62	**28**	35	19	**11**	–	(1)
Total revenue	**2,864**	3,126	2,263	**2,479**	2,284	1,584	**897**	614	107
Segmented expenses									
Operating									
Oil and liquids	**150**	132	124	**616**	589	533	**259**	180	55
Natural gas	**347**	284	240	**7**	10	6	**–**	–	–
Synthetic oil	**–**	–	–	**–**	–	–	**–**	–	–
Pipeline	**8**	6	6	**67**	15	12	**–**	–	–
Total operating expenses	**505**	422	370	**690**	614	551	**259**	180	55
Transportation	**73**	75	75	**54**	43	47	**27**	15	1
DD&A	**1,024**	908	741	**440**	397	489	**248**	157	45
Dry hole	**135**	122	147	**26**	38	109	**11**	15	–
Exploration	**168**	143	132	**25**	29	24	**30**	24	4
Other	**(108)**	(14)	19	**33**	54	28	**–**	–	2
Total segmented expenses	**1,797**	1,656	1,484	**1,268**	1,175	1,248	**575**	391	107
Segmented income before taxes	**1,067**	1,470	779	**1,211**	1,109	336	**322**	223	–
Non-segmented expenses									
General and administrative	**–**	–	–	**–**	–	–	**–**	–	–
Interest	**–**	–	–	**–**	–	–	**–**	–	–
Stock-based compensation	**–**	–	–	**–**	–	–	**–**	–	–
Currency translation	**–**	–	–	**–**	–	–	**–**	–	–
Total non-segmented expenses	**–**	–	–	**–**	–	–	**–**	–	–
Income from continuing operations before taxes	**–**	–	–	**–**	–	–	**–**	–	–
Capital expenditures									
Exploration	**1,080**	707	650	**138**	129	146	**102**	36	4
Development	**1,166**	844	766	**1,070**	746	241	**230**	109	104
Midstream	**174**	72	41	**–**	–	–	**–**	–	–
Exploration and development	**2,420**	1,623	1,457	**1,208**	875	387	**332**	145	108
Property acquisitions	**–**	–	–	**–**	–	–	**–**	–	–
Midstream acquisitions	**–**	–	–	**–**	–	–	**–**	–	–
Proceeds on dispositions	**–**	–	–	**–**	–	–	**–**	–	–
Other non-segmented	**–**	–	–	**–**	–	–	**–**	–	–
Net capital expenditures[6]	**–**	–	–	**–**	–	–	**–**	–	–
Property, plant and equipment	**7,957**	6,730	5,926	**6,131**	4,112	2,477	**1,558**	1,407	175
Goodwill	**270**	270	270	**449**	394	38	**697**	643	33
Other	**694**	652	402	**479**	384	274	**139**	169	25
Discontinued operations	**171**	367	362	**272**	672	474	**–**	–	–
Segmented assets	**9,092**	8,019	6,960	**7,331**	5,562	3,263	**2,394**	2,219	233
Non-segmented assets									
Total assets									

1 North America	2006	2005	2004
Canada	**2,611**	2,780	2,035
US	**253**	346	228
Total revenue	**2,864**	3,126	2,263
Canada	**7,510**	6,227	5,414
US	**447**	503	512
Property, plant and equipment	**7,957**	6,730	5,926

2 United Kingdom	2006	2005	2004
United Kingdom	**2,406**	2,228	1,548
Netherlands	**73**	56	36
Total revenue	**2,479**	2,284	1,584
United Kingdom	**6,081**	4,067	2,436
Netherlands	**50**	45	41
Property, plant and equipment	**6,131**	4,112	2,477

3 Scandinavia	2006	2005	2004
Norway	**819**	604	107
Denmark	**78**	10	–
Total revenue	**897**	614	107
Norway	**1,321**	1,149	175
Denmark	**237**	258	–
Property, plant and equipment	**1,558**	1,407	175

(millions of C$)	Southeast Asia[4] 2006	2005	2004	Other[5] 2006	2005	2004	Total 2006	2005	2004
Revenue									
Gross sales									
Oil and liquids	**1,385**	865	669	**537**	578	254	**6,169**	5,199	3,659
Natural gas	**740**	662	451	**2**	–	–	**3,190**	3,679	2,633
Synthetic oil	**–**	–	–	**–**	–	–	**–**	–	–
Sulphur	**–**	–	–	**–**	–	–	**3**	10	7
Total gross sales	**2,125**	1,527	1,120	**539**	578	254	**9,362**	8,888	6,299
Hedging (gain) loss	**–**	–	–	**–**	–	–	**(66)**	77	480
Royalties	**797**	553	391	**165**	170	97	**1,603**	1,516	1,059
Net sales	**1,328**	974	729	**374**	408	157	**7,825**	7,295	4,760
Other	**2**	1	–	**–**	–	–	**119**	112	80
Total revenue	**1,330**	975	729	**374**	408	157	**7,944**	7,407	4,840
Segmented expenses									
Operating									
Oil and liquids	**122**	56	73	**36**	35	17	**1,183**	992	802
Natural gas	**39**	31	25	**–**	–	–	**393**	325	271
Synthetic oil	**–**	–	–	**–**	–	–	**–**	–	–
Pipeline	**–**	–	–	**–**	–	–	**75**	21	18
Total operating expenses	**161**	87	98	**36**	35	17	**1,651**	1,338	1,091
Transportation	**46**	43	42	**7**	9	9	**207**	185	174
DD&A	**224**	144	174	**69**	83	30	**2,005**	1,689	1,479
Dry hole	**15**	11	25	**109**	55	30	**296**	241	311
Exploration	**22**	40	20	**73**	39	58	**318**	275	238
Other	**9**	1	(9)	**12**	5	19	**(54)**	46	59
Total segmented expenses	**477**	326	350	**306**	226	163	**4,423**	3,774	3,352
Segmented income before taxes	**853**	649	379	**68**	182	(6)	**3,521**	3,633	1,488
Non-segmented expenses									
General and administrative	**–**	–	–	**–**	–	–	**233**	201	183
Interest	**–**	–	–	**–**	–	–	**166**	163	173
Stock-based compensation	**–**	–	–	**–**	–	–	**51**	633	171
Currency translation	**–**	–	–	**–**	–	–	**25**	(7)	30
Total non-segmented expenses	**–**	–	–	**–**	–	–	**475**	990	557
Income from continuing operations before taxes	**–**	–	–	**–**	–	–	**3,046**	2,643	931
Capital expenditures									
Exploration	**72**	74	54	**161**	138	98	**1,553**	1,084	952
Development	**259**	231	201	**88**	46	166	**2,813**	1,976	1,478
Midstream	**–**	–	–	**–**	–	–	**174**	72	41
Exploration and development	**331**	305	255	**249**	184	264	**4,540**	3,132	2,471
Property acquisitions	**–**	–	–	**–**	–	–	**204**	536	330
Midstream acquisitions	**–**	–	–	**–**	–	–	**–**	–	–
Proceeds on dispositions	**–**	–	–	**–**	–	–	**(119)**	(22)	(88)
Other non-segmented	**–**	–	–	**–**	–	–	**36**	28	26
Net capital expenditures[6]	**–**	–	–	**–**	–	–	**4,661**	3,674	2,739
Property, plant and equipment	**1,561**	1,465	1,050	**484**	482	473	**17,691**	14,196	10,101
Goodwill	**123**	123	100	**4**	4	–	**1,543**	1,434	441
Other	**351**	348	221	**71**	75	47	**1,734**	1,628	969
Discontinued operations	**–**	–	–	**–**	–	–	**443**	1,039	836
Segmented assets	**2,035**	1,936	1,371	**559**	561	520	**21,411**	18,297	12,347
Non-segmented assets	**–**	–	–	**–**	–	–	**50**	57	61
Total assets	**–**	–	–	**–**	–	–	**21,461**	18,354	12,408

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Southeast Asia	**2006**	2005	2004
Indonesia	**558**	408	346
Malaysia	**551**	539	363
Vietnam	**30**	28	20
Australia	**191**	–	–
Total revenue	**1,330**	975	729
Indonesia	**417**	371	327
Malaysia	**879**	818	701
Vietnam	**54**	23	22
Australia	**211**	253	–
Property, plant and equipment	**1,561**	1,465	1,050

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Other	**2006**	2005	2004
Trinidad and Tobago	**186**	194	–
Algeria	**174**	212	157
Tunisia	**14**	2	–
Total revenue	**374**	408	157
Trinidad and Tobago	**246**	275	182
Algeria	**199**	162	178
Tunisia	**15**	15	–
Other	**24**	30	113
Property, plant and equipment	**484**	482	473

6 Excluding corporate acquisitions

20. Information Regarding United States GAAP Differences

Accounting Principles Generally Accepted in the United States

The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) which, in most respects, conform to accounting principles generally accepted in the United States (US GAAP). Significant differences between Canadian and US GAAP are as follows:

Net Income in Accordance with US GAAP

Years ended December 31 (millions of C$)	Notes	**2006**	2005	2004
			(restated)[1]	(restated)[1]
Net income from continuing operations – Canadian GAAP		**1,452**	1,354	519
Depreciation, depletion and amortization	1,2,3	**(35)**	(41)	(35)
(Loss) gain on derivative instruments	4	**(13)**	(19)	85
Deferred income taxes	2	**12**	(6)	(16)
Stock-based compensation	10	**(37)**	–	–
Interest on long-term debt	4	**(3)**	1	6
		(76)	(65)	40
Net income from continuing operations		**1,376**	1,289	559
Net income from discontinued operations	7	**553**	207	135
Net income before cumulative effect of changes in accounting principles		**1,929**	1,496	694
Cumulative effect of changes in accounting principles, net of tax	10	**(9)**	–	–
Net income – US GAAP		**1,920**	1,496	694
Per common share amounts (C$)[2]				
Basic				
Income from continuing operations		**1.26**	1.18	0.48
Income from discontinued operations		**0.51**	0.18	0.12
Income before cumulative effect of changes in accounting principles		**1.77**	1.36	0.60
Cumulative effect of changes in accounting principles, net of tax		**(0.01)**	–	–
Net income		**1.76**	1.36	0.60
Diluted				
Income from continuing operations		**1.22**	1.14	0.47
Income from discontinued operations		**0.50**	0.18	0.12
Income before cumulative effect of changes in accounting principles		**1.72**	1.32	0.59
Cumulative effect of changes in accounting principles, net of tax		**(0.01)**	–	–
Net income		**1.71**	1.32	0.59

1 Prior years have been restated to present the effect of discontinued operations. See note 2 and 20.7 for details.

2 Prior years have been restated to reflect the impact of the Company's three-for-one share split in May 2006. See note 8 for details.

Comprehensive Income in Accordance with US GAAP

Years ended December 31 (millions of C$)	Notes	2006	2005	2004
Net income – US GAAP		**1,920**	1,496	694
Other comprehensive income				
Unrealized foreign exchange gain on translation of self-sustaining operations	6	**179**	40	288
Minimum pension liability, net of tax	9	–	(8)	–
Unrealized change in fair value of financial instruments, net of tax	4	**92**	(20)	(40)
Comprehensive income – US GAAP		**2,191**	1,508	942

Statement of Cash Flow Items in Accordance with US GAAP

Years ended December 31 (millions of C$)	Notes	2006	2005	2004
Operating				
Cash provided by operating activities	8	**4,056**	4,596	2,881
Investing				
Cash used in investing activities	8	**(3,452)**	(5,869)	(2,519)
Financing				
Cash provided by (used in) financing activities		**(680)**	1,346	(401)
Effect of translation on foreign currency cash		**10**	19	(21)
Net increase (decrease) in cash and cash equivalents		**(66)**	92	(60)
Cash and cash equivalents, net of bank indebtedness beginning of year		**130**	38	98
Cash and cash equivalents, net of bank indebtedness end of year		**64**	130	38
Cash and cash equivalents, end of year		**103**	145	38
Bank indebtedness, end of year		**39**	15	–

Balance Sheet items in Accordance with US GAAP

December 31 (millions of C$)	Notes	2006		2005	
		Canadian GAAP	**US GAAP**	Canadian GAAP (restated)[1]	US GAAP (restated)[1]
Current assets		**2,075**	**2,075**	2,347	2,347
Property, plant and equipment	1-3	**17,691**	**17,926**	14,196	14,466
Other non-current assets	4,9	**1,695**	**1,727**	1,811	1,738
		21,461	**21,728**	18,354	18,551
Current liabilities	10	**3,163**	**3,185**	3,238	3,238
Long-term debt		**4,560**	**4,560**	4,263	4,263
Future income taxes	2	**4,350**	**4,295**	3,367	3,303
Other non-current liabilities	4,9,10	**2,081**	**2,151**	1,691	1,696
		14,154	**14,191**	12,559	12,500
Non-controlling interest		–	–	66	66
Shareholders' equity					
Common shares		**2,533**	**2,533**	2,609	2,609
Contributed surplus	5	**67**	**84**	69	86
Cumulative foreign currency translation	4,6	**122**	**(1,189)**	(265)	(1,397)
Accumulative other comprehensive income	4,6,9	–	**1,359**	–	1,121
Retained earnings	1-7,9,10	**4,585**	**4,750**	3,316	3,566
Total liabilities and shareholders' equity		**21,461**	**21,728**	18,354	18,551

1 Prior years have been restated to present the effect of discontinued operations. See note 2 for details.

20.1 Gains on Property Exchanges: In 2005, the Company early adopted a new Canadian standard that eliminated a US GAAP reconciling item on a go forward basis. Under both US and Canadian GAAP, non-monetary property exchanges are recorded at fair value unless the transaction lacks commercial substance. Prior to 2005 under both US and Canadian GAAP, property exchanges were recorded at the carrying value of the assets given up unless the exchange transaction included significant cash consideration, in which case it was recorded at fair value. Previous differences in the

definition of significant cash consideration under Canadian GAAP, have created differences in the carrying value of these properties and result in differences in depreciation, depletion and amortization expense in subsequent years.

20.2 Income Taxes and Depreciation, Depletion and Amortization Expense: In 2000, the Company adopted the liability method to account for income taxes. The change to the liability method has eliminated a difference between Canadian and US GAAP, however, in accordance with the recommendations of the CICA, the effect of the adoption under Canadian GAAP resulted in a charge to retained earnings, whereas, under US GAAP, the future tax costs that gave rise to the Canadian GAAP adjustment have already been reflected in property, plant and equipment. As a result of the implementation method, further differences in depreciation, depletion and amortization expense result in subsequent years. Other adjustments to the Canadian GAAP net income required under US GAAP, as disclosed in this note, have been tax effected as necessary.

20.3 Impairments: In 2004, the Company adopted a new Canadian standard that eliminated a US GAAP reconciling item in respect to impairments on a go forward basis. Under both US and Canadian GAAP, property, plant and equipment must be assessed for potential impairments. Under US GAAP, and effective in 2004 Canadian GAAP as disclosed in note 1(c), if the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, then an impairment loss (the amount by which the carrying amount of the asset exceeds the fair value of the asset) should be recognized. Fair value is calculated as the present value of estimated expected future cash flows. Prior to 2004, under Canadian GAAP, the impairment loss was the difference between the carrying value of the asset and its net recoverable amount (undiscounted). Previous impairment charges not required under Canadian GAAP have resulted in differences in depreciation, depletion and amortization expense in subsequent years.

20.4 Forward Foreign Exchange Contracts and Other Financial Instruments: The Company has designated, for Canadian GAAP purposes, the majority of its derivative financial instruments as hedges, as described in note 11. In accordance with Canadian GAAP, payments or receipts on these contracts are recognized in income concurrently with the hedged transaction. The fair values of the contracts deemed to be hedges are not reflected in the Consolidated Financial Statements.

Effective January 1, 2001, for US GAAP purposes, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, as amended, Accounting for Derivative Instruments and Hedging Activities. Effective with the adoption of this standard, every derivative instrument, including certain derivative instruments embedded in other contracts, is recognized on the balance sheets at fair value. The statement requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

Prior to January 1, 2004, management had not designated any of the currently held derivative instruments as hedges for US GAAP purposes and, accordingly, these derivatives were recognized on the balance sheets at their fair value with the change in their fair value recognized in earnings. Subsequent to January 1, 2004, management has designated its commodity derivative financial instruments as cash flow hedges for US GAAP purposes and, accordingly, the changes in their fair value are now recognized in other comprehensive income (OCI) with any ineffective portion recognized in net income. The ineffective portion was a loss of $10 million in 2006 (2005 – $nil; 2004 – $1 million). In 2006, the change in the fair value of derivative financial instruments increased OCI by $92 million, net of income tax of $38 million. For fair value hedges, such as cross currency and interest rate swaps, the derivative instrument is recognized on the balance sheets at their fair value. The change in fair value of both is reflected in net income.

Effective January 1, 2007, the Company adopted the new Canadian standards that effectively harmonize with US GAAP and, consequently, differences in future periods are expected to be minor.

20.5 Appropriation of Contributed Surplus: In 1992, concurrent with a change in control of the Company, $17 million of contributed surplus was appropriated to retained earnings to eliminate the deficit at June 30, 1992. This restatement of retained earnings is not permitted under US GAAP as the events that precipitated it did not constitute a quasi-reorganization.

20.6 Foreign Exchange Gains and Losses on Translation of Self-Sustaining Foreign Operations: Under US GAAP, foreign exchange gains and losses on translation of self-sustaining foreign operations are recorded in other comprehensive income. Under Canadian GAAP, such gains and losses are included as a separate component of shareholders' equity referred to as cumulative foreign currency translation. Effective January 1, 2007 the Company adopted the new Canadian standards that effectively harmonize with US GAAP and consequently the Company does not expect GAAP differences in future periods.

20.7 Discontinued Operations: In 2004, the Company adopted a new Canadian standard that eliminated a US GAAP reconciling item in respect to the reporting of discontinued operations. Prior to 2004, discontinued operations reporting was required for US GAAP, but not for Canadian GAAP. The impact of this difference in prior periods was limited to the classification of the discontinued operations, and consequently there are no remaining GAAP differences in the reported results.

20.8 Cash Provided by Operating Activities Presentation: Under US GAAP, exploration expense is treated as an operating item.

20.9 Employee future benefits: In 2006, the Company adopted FASB Statement 158 for US GAAP purposes. This statement requires the recognition of the net funded status of pension and other post retirement plans on the balance sheet. Deferred actuarial losses, past service costs and transitional assets are now presented on the balance sheet in accumulated other comprehensive income and charged to net income in a manner consistent with the provisions of Statements 87 and 106. Adoption of this Statement under US GAAP resulted in a decrease to other assets of $12 million, an increase to other long-term liabilities of $35 million and a reduction to future tax liabilities of $14 million. As required on adoption of this standard, the net adjustment of $33 million has been reported as a reduction to the ending balance of accumulated other comprehensive income. Under this statement a company is required to measure defined benefit plan assets and obligations as of the balance sheet date. This is consistent with Talisman's current practice and has not resulted in a GAAP difference.

Prior to the adoption of Statement 158 in 2006, the Company had recognized the amount by which the accumulated benefit obligation exceeded the fair value of the plan assets as an additional minimum liability. In addition, an intangible asset was recognized equal to the lesser of the additional minimum liability and the unrecognized prior service costs, with the excess of the additional minimum liability over the unrecognized prior service costs reported in comprehensive income, net of tax.

December 31, 2006	**Surplus**	**Deficit**	**Total**
Amounts not yet reflected in the net periodic benefit cost			
Transitional asset (obligation)	5	(3)	2
Past service costs	–	(4)	(4)
Net actuarial loss	(11)	(46)	(57)
Future tax assets	1	17	18
Included in accumulated other comprehensive income	(5)	(36)	(41)

The amounts in accumulated other comprehensive income that are expected to be recognized as components of net periodic benefit expense over the next fiscal year are as follows; net transitional asset and obligation $1 million, net actuarial gains and losses $3 million, past service costs $nil. See note 18 for additional information.

20.10 Stock-based compensation: Effective January 1, 2006 the Company adopted FASB Statement 123R for US GAAP purposes on a prospective basis. All of the Company's stock-based compensation plans are classified as liability instruments. Prior to adoption of Statement 123R there was no GAAP difference and our stock-based compensation was accounted for using the intrinsic value method, whereby obligations were accrued over the vesting period and represented the difference between the market value of the Company's common shares and the exercise price of the options. Under Statement 123R, obligations for liability-based stock compensation plans are measured at their fair value, and re-measured at fair value at each reporting date with the change in the obligation charged as stock-based compensation. Upon adoption of Statement 123R the Company recorded a loss of $9 million, net of tax of $4 million as a cumulative effect of change in accounting principle. A description of the Company's stock-based compensation plans and additional information is available in note 8.

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based compensation plans, with the following assumptions:

	2006	2005
Expected volatility	**30%**	30%
Risk free interest rate	**4.0%**	3.9%
Expected term (years)	**5.4**	5.4
Expected forfeiture rate	**7.5%**	7.3%
Expected annual dividend yield	**1.0%**	1.0%

The expected volatility is based on the historical volatility of our common shares over a historical period that matches the expected term of the stock-based compensation plans. The risk free rate is based on Government of Canada bond yields for terms that match the expected term of the stock-based compensation plans. The expected term is based on the experienced historical holding period for stock-based compensation instruments. Under liability accounting the expected life used to determine fair value is reduced as options approach their expected life, such that options that are still outstanding beyond their expected life have no remaining time value and accordingly are recorded at their intrinsic value. The expected dividend rate takes into account historical dividend payments and our expectation for future payments.

For the year ended December 31, 2006 the total stock-based compensation expense was $88 million (2005 – $633 million, 2004 – $171 million). The stock-based compensation expense net of tax was $58 million (2005 – $447 million, 2004 – $119 million). At December 31, 2006 there was unrecognized compensation expense of $95 million which we expect to realize over a weighted average period of 1.8 years. The total number of options and cash units expected to vest as at December 31, 2006 was 68.7 million with a weighted average remaining contractual life of 6.9 years, a weighted average exercise price of $10.71 and an aggregate intrinsic value of $624 million.

20.11 Additional Information: The Company has implemented a financing structure whereby a subsidiary has US$471 million drawn on a bank facility that has been offset against equal amounts of cash deposited by another subsidiary with the same bank under a right of offset agreement. The Company intends to set-off these amounts at maturity.

Newly Issued US Accounting Standards

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" ("FIN 48"), which is a change in accounting for income taxes. FIN 48 specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the balance sheet; and provides transition and interim-period guidance, among other provisions.

FIN 48 is effective for fiscal years beginning after December 15, 2006, and will be effective for Talisman's 2007 year end reporting. Talisman is currently evaluating the impact of FIN 48 on our Consolidated Financial Statements.

Fair Value Measurements

In September 2006, the FASB issued Statement 157, "Fair Value Measurements". This statement is intended to increase the consistency and comparability of fair value measurements and eliminate different definitions of fair value under various US standards. This standard clarifies that fair value is a market measure and not an entity specific measure. Among other attributes, fair value assumes the highest and best use for the asset or liability being measured and is based on the exit price for the holder of the asset or liability. This standard also establishes a fair value hierarchy as follows: Level 1 is fair value based on observable market inputs that reflect quoted prices in a market accessible to the entity. Level 2 is fair value based on observable market inputs that do not reflect quoted prices in a market accessible to the entity, for example quoted prices for similar assets or identical assets in inactive markets, or inputs derived through interpolation of other observable market data. Level 3 fair value is based on unobservable market inputs, for example inputs derived through interpolation that cannot be corroborated by observable market data. The total fair value of assets and liabilities that are re-measured each reporting date must be grouped by hierarchy level for disclosure purposes, and in addition a continuity of the changes in the Level 3 measurements must be disclosed. This statement is effective for fiscal years beginning on or after November 15, 2007 and will be effective for Talisman in fiscal 2008. Talisman is currently evaluating the impact that Statement 157 on our Consolidated Financial Statements.

Summary US Dollar Information

Unless otherwise noted, all amounts in the Consolidated Financial Statements, including Accounting Principles Generally Accepted in the United States above, are reported in millions of C$. The following information reflects summary financial information prepared in accordance with US GAAP translated from C$ to US$ at the average exchange rate prevailing in the respective year.

US$ million (except as noted)	**2006**	2005[1]	2004[1]
Total revenue[1]	**7,007**	6,117	3,720
Net income	**1,694**	1,235	533
Basic net income per common share (US$/share)	**1.55**	1.12	0.46
Average exchange rate (US$/C$)	**0.8820**	0.8258	0.7686

1 Total revenue excludes results of discontinued operations, prior periods have been restated accordingly.

Supplementary Oil and Gas Information

(unaudited)

The supplemental data on the Company's oil and gas activities was prepared in accordance with the FASB's SFAS No. 69: Disclosures About Oil and Gas Producing Activities. Activities not directly associated with conventional crude oil and natural gas production, including synthetic oil operations, are excluded from all aspects of this supplementary oil and gas information.

Supplementary oil and gas information reflects activities from assets that are classified as both continuing operations and, until disposed of, discontinued operations for financial reporting purposes. See note 2 to the Consolidated Financial Statements for details.

Results of Operations from Oil and Gas Producing Activities

Years ended December 31 (millions of C$)	North America[2]	United Kingdom[3]	Scandinavia[3]	Southeast Asia	Other[4]	Total
2006						
Net oil and gas revenue derived from proved reserves[1]	**2,836**	**2,923**	**886**	**1,329**	**374**	**8,348**
Less: Production costs	**511**	**740**	**259**	**161**	**36**	**1,707**
Transportation	**73**	**72**	**27**	**46**	**7**	**225**
Exploration and dry hole expense	**302**	**51**	**42**	**38**	**182**	**615**
Depreciation, depletion and amortization	**997**	**532**	**248**	**224**	**69**	**2,070**
Tax expense (recovery)	**286**	**876**	**235**	**405**	**69**	**1,871**
Results of operations	**667**	**652**	**75**	**455**	**11**	**1,860**
2005						
Net oil and gas revenue derived from proved reserves[1]	3,160	2,651	614	974	408	7,807
Less: Production costs	442	665	180	87	35	1,409
Transportation	74	64	15	43	9	205
Exploration and dry hole expense	265	67	39	50	94	515
Depreciation, depletion and amortization	906	552	157	144	83	1,842
Tax expense (recovery)	543	651	175	270	93	1,732
Results of operations	930	652	48	380	94	2,104
2004						
Net oil and gas revenue derived from proved reserves[1]	2,304	1,927	111	729	156	5,227
Less: Production costs	392	602	60	98	17	1,169
Transportation	75	66	–	42	9	192
Exploration and dry hole expense	280	134	4	45	86	549
Depreciation, depletion and amortization	729	644	45	174	30	1,622
Tax expense (recovery)	209	286	2	152	8	657
Results of operations	619	195	–	218	6	1,038

1 Net oil and gas revenue derived from proved reserves is net of applicable royalties.

2 During the second quarter of 2006, the Company made changes to the North America reporting segment, to include activities in Alaska, which previously had been included in the Other reporting segment. Reclassifications have been made for all corresponding reported periods.

3 The reporting segments entitled United Kingdom and Scandinavia, which were reported in aggregate as the North Sea in 2005 and 2004, are now reported separately in 2006. Reclassifications have been made for all corresponding reported periods.

4 The reporting segment entitled Other for 2006 includes North Africa (Algeria and Tunisia) and Trinidad and Tobago, which were reported separately in 2005 and 2004. Reclassifications have been made for all corresponding reported periods. The segment also includes exploration interests in other countries.

Capitalized Costs Related to Oil and Gas Activities

As at December 31 (millions of C$)	North America[1]	United Kingdom[2]	Scandinavia[2]	Southeast Asia	Other[3]	Total
2006						
Proved properties	**9,915**	**9,808**	**1,701**	**2,346**	**609**	**24,379**
Unproved properties	**351**	**1,280**	**291**	**66**	**71**	**2,059**
Incomplete wells and facilities	**162**	**10**	**15**	**30**	**2**	**219**
	10,428	**11,098**	**2,007**	**2,442**	**682**	**26,657**
Less: Accumulated depreciation, depletion and amortization	**3,060**	**4,764**	**449**	**911**	**197**	**9,381**
Net capitalized costs	**7,368**	**6,334**	**1,558**	**1,531**	**485**	**17,276**
2005						
Proved properties	10,125	7,577	1,221	1,877	396	21,196
Unproved properties	312	924	373	90	170	1,869
Incomplete wells and facilities	117	2	4	41	36	200
	10,554	8,503	1,598	2,008	602	23,265
Less: Accumulated depreciation, depletion and amortization	4,069	3,871	191	586	123	8,840
Net capitalized costs	6,485	4,632	1,407	1,422	479	14,425
2004						
Proved properties	8,680	6,789	220	1,487	431	17,607
Unproved properties	224	48	6	16	41	335
Incomplete wells and facilities	49	3	–	46	47	145
	8,953	6,840	226	1,549	519	18,087
Less: Accumulated depreciation, depletion and amortization	3,195	3,954	52	501	42	7,744
Net capitalized costs	5,758	2,886	174	1,048	477	10,343

1 During the second quarter of 2006, the Company made changes to the North America reporting segment, to include activities in Alaska, which previously had been included in the Other reporting segment. Reclassifications have been made for all corresponding reported periods.

2 The reporting segments entitled United Kingdom and Scandinavia, which were reported in aggregate as the North Sea in 2005 and 2004, are now reported separately in 2006. Reclassifications have been made for all corresponding reported periods.

3 The reporting segment entitled Other for 2006 includes North Africa (Algeria and Tunisia) and Trinidad and Tobago, which were reported separately in 2005 and 2004. Reclassifications have been made for all corresponding reported periods. The segment also includes exploration interests in other countries.

Costs Incurred in Oil and Gas Activities

Years ended December 31 (millions of C$)	North America[1]	United Kingdom[2]	Scandinavia[2]	Southeast Asia	Other[3]	Total
2006						
Property acquisition costs						
Proved	**17**	**29**	**3**	**–**	**–**	**49**
Unproved	**322**	**183**	**–**	**3**	**–**	**508**
Exploration costs	**758**	**138**	**102**	**68**	**161**	**1,227**
Development costs	**1,179**	**1,086**	**230**	**259**	**88**	**2,842**
Asset retirement costs	**60**	**434**	**1**	**15**	**3**	**513**
Total costs incurred	**2,336**	**1,870**	**336**	**345**	**252**	**5,139**
2005						
Property acquisition costs						
Proved	222	1,032	955	220	15	2,444
Unproved	130	919	350	64	–	1,463
Exploration costs	589	126	39	73	137	964
Development costs	853	738	129	231	46	1,997
Asset retirement costs	90	(97)	142	29	5	169
Total costs incurred	1,884	2,718	1,615	617	203	7,037
2004						
Property acquisition costs						
Proved	77	234	(1)	–	–	310
Unproved	204	65	6	–	–	275
Exploration costs	483	146	4	54	96	783
Development costs	785	319	38	201	166	1,509
Asset retirement costs	36	42	9	3	7	97
Total costs incurred	1,585	806	56	258	269	2,974

1 During the second quarter of 2006, the Company made changes to the North America reporting segment, to include activities in Alaska, which previously had been included in the Other reporting segment. Reclassifications have been made for all corresponding reported periods.

2 The reporting segments entitled United Kingdom and Scandinavia, which were reported in aggregate as the North Sea in 2005 and 2004, are now reported separately in 2006. Reclassifications have been made for all corresponding reported periods.

3 The reporting segment entitled Other for 2006 includes North Africa (Algeria and Tunisia) and Trinidad and Tobago, which were reported separately in 2005 and 2004. Reclassifications have been made for all corresponding reported periods. The segment also includes exploration interests in other countries.

Standardized Measure of Discounted Future Net Cash Flows from Proved Reserves

Future net cash flows were calculated by applying the respective year end prices to the Company's estimated future production of proved reserves and deducting estimates of future development, asset retirement, production and transportation costs and income taxes. Future costs have been estimated based on existing economic and operating conditions. Future income taxes have been estimated based on statutory tax rates enacted at year end. The present values of the estimated future cash flows were determined by applying a 10% discount rate prescribed by the Financial Accounting Standards Board.

In order to increase the comparability between companies, the standardized measure of discounted future net cash flows necessarily employs uniform assumptions that do not necessarily reflect management's best estimate of future events and anticipated outcomes. Accordingly, the Company does not believe that the standardized measure of discounted future net cash flows will be representative of actual future net cash flows and should not be considered to represent the fair market value of the oil and gas properties. Actual future net cash flows will differ significantly from estimates due to, but not limited to, the following:

- production rates will differ from those estimated both in terms of timing and amount. For example, future production may include significant additional volumes from unproved reserves;
- future prices and economic conditions will differ from those at year end. For example, changes in prices decreased the discounted future net cash flows by $4 billion in 2006;
- future production and development costs will be determined by future events and will differ from those at year end; and
- estimated income taxes will differ in terms of amounts and timing dependent on the above factors, changes in enacted rates and the impact of future expenditures on unproved properties.

The standardized measure of discounted future net cash flows was prepared using the following prices:

	2006	2005	2004
Crude oil and liquids ($/bbl)			
North America[1,2]	**55.04**	50.95	34.27
United Kingdom[3]	**67.72**	66.31	46.59
Scandinavia[3]	**68.50**	68.38	48.48
Southeast Asia	**68.32**	65.88	44.01
Other[4]	**69.22**	67.49	47.30
	65.22	62.83	42.66
Natural Gas ($/mcf)			
North America[1]	**6.72**	10.87	7.32
United Kingdom[3]	**7.68**	10.90	6.20
Scandinavia[3]	**7.73**	3.69	7.14
Southeast Asia	**4.99**	4.87	3.54
Other[4]	**2.79**	2.17	1.81
	5.93	8.03	5.47

1 During the second quarter of 2006, the Company made changes to the North America reporting segment, to include activities in Alaska, which previously had been included in the Other reporting segment. Reclassifications have been made for all corresponding reported periods.

2 The price for Talisman's crude oil in North America is lower than other oil prices as it is a heavier grade.

3 The reporting segments entitled United Kingdom and Scandinavia, which were reported in aggregate as the North Sea in 2005 and 2004, are now reported separately in 2006. Reclassifications have been made for all corresponding reported periods.

4 The reporting segment entitled Other for 2006 includes North Africa (Algeria and Tunisia) and Trinidad and Tobago, which were reported separately in 2005 and 2004. Reclassifications have been made for all corresponding reported periods.

Discounted Future Net Cash Flows from Proved Reserves

As at December 31 (millions of C$)	North America[2]	United Kingdom[3]	Scandinavia[3]	Southeast Asia	Other[4]	Total
2006						
Future Cash Inflows[1]	**23,058**	**26,963**	**4,821**	**10,875**	**2,959**	**68,676**
Future Costs						
Transportation	**(640)**	**(879)**	**(254)**	**(617)**	**(78)**	**(2,468)**
Production	**(6,225)**	**(13,442)**	**(1,996)**	**(1,849)**	**(448)**	**(23,960)**
Development and asset retirement	**(2,670)**	**(6,175)**	**(1,332)**	**(1,293)**	**(244)**	**(11,714)**
Future net inflows before income taxes	**13,523**	**6,467**	**1,239**	**7,116**	**2,189**	**30,534**
Future income and production revenue taxes	**(3,231)**	**(3,118)**	**(406)**	**(2,953)**	**(866)**	**(10,574)**
Future net cash flows	**10,292**	**3,349**	**833**	**4,163**	**1,323**	**19,960**
10% discount factor	**(4,279)**	**(51)**	**(273)**	**(1,832)**	**(506)**	**(6,941)**
Discounted future net cash flows	**6,013**	**3,298**	**560**	**2,331**	**817**	**13,019**
2005						
Future Cash Inflows[1]	30,776	25,891	3,084	11,039	2,627	73,417
Future Costs						
Transportation	(649)	(659)	(105)	(661)	(70)	(2,144)
Production	(5,148)	(9,499)	(1,077)	(1,645)	(412)	(17,781)
Development and asset retirement	(2,601)	(3,483)	(470)	(980)	(196)	(7,730)
Future net inflows before income taxes	22,378	12,250	1,432	7,753	1,949	45,762
Future income and production revenue taxes	(6,793)	(5,719)	(778)	(3,282)	(737)	(17,309)
Future net cash flows	15,585	6,531	654	4,471	1,212	28,453
10% discount factor	(6,330)	(1,477)	(102)	(1,899)	(452)	(10,260)
Discounted future net cash flows	9,255	5,054	552	2,572	760	18,193
2004						
Future Cash Inflows[1]	20,825	14,406	510	7,525	1,925	45,191
Future Costs						
Transportation	(501)	(442)	(52)	(655)	(61)	(1,711)
Production	(4,847)	(6,856)	(172)	(1,235)	(276)	(13,386)
Development and asset retirement	(2,138)	(3,107)	(107)	(770)	(143)	(6,265)
Future net inflows before income taxes	13,339	4,001	179	4,865	1,445	23,829
Future income and production revenue taxes	(3,650)	(1,658)	(66)	(1,959)	(507)	(7,840)
Future net cash flows	9,689	2,343	113	2,906	938	15,989
10% discount factor	(3,845)	(295)	(7)	(1,402)	(280)	(5,829)
Discounted future net cash flows	5,844	2,048	106	1,504	658	10,160

1 Net oil and gas revenue derived from proved reserves is net of applicable royalties.

2 During the second quarter of 2006, the Company made changes to the North America reporting segment, to include activities in Alaska, which previously had been included in the Other reporting segment. Reclassifications have been made for all corresponding reported periods.

3 The reporting segments entitled United Kingdom and Scandinavia, which were reported in aggregate as the North Sea in 2005 and 2004, are now reported separately in 2006. Reclassifications have been made for all corresponding reported periods.

4 The reporting segment entitled Other for 2006 includes North Africa (Algeria and Tunisia) and Trinidad and Tobago, which were reported separately in 2005 and 2004. Reclassifications have been made for all corresponding reported periods.

Principal Sources of Changes in Discounted Cash Flows

Years ended December 31 (millions of C$)	**2006**	2005	2004
Sales of oil and gas produced, net of production costs	**(6,416)**	(6,193)	(3,866)
Net change in prices	**(4,021)**	12,824	3,506
Net change in transportation costs	**51**	68	(954)
Net change in production costs	**(3,255)**	(1,163)	410
Net change in future development and asset retirement	**(2,208)**	(426)	(638)
Development costs incurred during the year	**1,864**	1,256	623
Extensions, discoveries and improved recovery	**2,340**	3,267	2,386
Revisions of previous reserve estimates	**676**	802	(615)
Net purchases and sales of reserves in place	**(478)**	3,250	150
Accretion of disco unt	**2,869**	1,522	1,263
Net change in taxes	**2,965**	(6,934)	(598)
Other	**439**	(240)	257
Net change	**(5,174)**	8,033	1,924
Balance, beginning of year	**18,193**	10,160	8,236
Balance, end of year	**13,019**	18,193	10,160

Continuity of Net Proved Reserves[1]

	North America[2]	United Kingdom	Scandinavia[3]	Southeast Asia[4]	Other[5]	Total
Crude Oil and Liquids (mmbbls)						
Total proved						
Proved reserves at December 31, 2003	158.4	240.8	14.2	52.5	34.7	**500.6**
Discoveries, additions and extensions	14.0	29.7	–	2.0	8.1	**53.8**
Purchase of reserves	0.2	34.0	–	0.9	–	**35.1**
Sale of reserves	(2.1)	(3.3)	–	–	–	**(5.4)**
Net revisions and transfers	(2.5)	26.8	(2.8)	(1.3)	(6.9)	**13.3**
2004 Production	(15.8)	(42.1)	(2.2)	(7.9)	(3.1)	**(71.1)**
Proved reserves at December 31, 2004	152.2	285.9	9.2	46.2	32.8	**526.3**
Discoveries, additions and extensions	10.6	42.3	2.1	16.4	3.8	**75.2**
Purchase of reserves	0.1	32.8	41.9	17.0	0.7	**92.5**
Sale of reserves	–	–	(0.9)	–	–	**(0.9)**
Net revisions and transfers	(5.2)	30.1	1.6	(16.0)	1.1	**11.6**
2005 Production	(15.5)	(38.6)	(9.3)	(7.7)	(6.6)	**(77.7)**
Proved Reserves at December 31, 2005	142.2	352.5	44.6	55.9	31.8	**627.0**
Discoveries, additions and extensions	8.4	28.7	28.6	(2.9)	7.3	**70.1**
Purchase of reserves	–	26.2	–	–	–	**26.2**
Sale of reserves	(7.3)	(6.8)	–	–	–	**(14.1)**
Net revisions and transfers	9.3	14.3	0.4	11.6	(0.3)	**35.3**
2006 Production	(14.3)	(37.1)	(11.8)	(10.7)	(5.4)	**(79.3)**
Proved Reserves at December 31, 2006	138.3	377.8	61.8	53.9	33.4	**665.2**
Proved Developed						
December 31, 2003	155.4	207.9	3.9	18.6	14.6	**400.4**
December 31, 2004	142.6	247.6	4.7	19.2	27.0	**441.1**
December 31, 2005	132.0	274.2	34.8	35.8	22.3	**499.1**
December 31, 2006	130.1	252.9	25.6	36.9	25.8	**471.3**
Natural Gas (bcf)						
Total proved						
Proved reserves at December 31, 2003	2,080.7	222.2	13.4	986.7	211.0	**3,514.0**
Discoveries, additions and extensions	370.6	8.0	–	521.9	–	**900.5**
Purchase of reserves	19.1	0.1	–	–	–	**19.2**
Sale of reserves	(57.1)	(0.5)	–	–	–	**(57.6)**
Net revisions and transfers	(19.2)	(23.2)	(3.2)	93.5	5.5	**53.4**
2004 Production	(260.6)	(38.3)	(1.2)	(47.3)	–	**(347.4)**
Proved reserves at December 31, 2004	2,133.5	168.3	9.0	1,554.8	216.5	**4,082.1**
Discoveries, additions and extensions	274.9	23.1	0.3	81.7	–	**380.0**
Purchase of reserves	11.7	56.9	4.4	30.8	1.2	**105.0**
Sale of reserves	(1.1)	–	–	–	–	**(1.1)**
Net revisions and transfers	2.5	15.8	(2.3)	(94.0)	(2.9)	**(80.9)**
2005 Production	(265.6)	(33.0)	(3.2)	(73.1)	–	**(374.9)**
Proved reserves at December 31, 2005	2,155.9	231.1	8.2	1,500.2	214.8	**4,110.2**
Discoveries, additions and extensions	356.8	33.1	65.9	(18.9)	14.8	**451.7**
Purchase of reserves	2.9	–	–	–	–	**2.9**
Sale of reserves	(35.8)	(20.5)	–	–	–	**(56.3)**
Net revisions and transfers	51.1	(28.1)	7.4	47.7	(0.2)	**77.9**
2006 Production	(253.3)	(37.5)	(5.2)	(78.3)	(0.1)	**(374.4)**
Proved reserves at December 31, 2006	2,277.6	178.1	76.3	1,450.7	229.3	**4,212.0**
Proved Developed						
December 31, 2003	1,890.4	199.5	1.2	593.9	–	**2,685.0**
December 31, 2004	1,788.2	148.0	2.0	624.0	–	**2,562.2**
December 31, 2005	1,771.8	174.9	6.2	548.8	0.8	**2,502.5**
December 31, 2006	1,860.9	123.2	8.6	895.5	0.5	**2,888.7**

1 For definitions of reserves, see the notes found on page 31 of this Annual Financial Report.

2 North America net proved reserves exclude synthetic crude oil reserves: 2004 – 35.2 mmbbls; 2005 – 34.3 mmbbls; and 2006 – 32.0 mmbbls.

3 Scandinavia for 2003 and 2004 includes Norway, but excludes Denmark.

4 Southeast Asia for 2003 and 2004 includes Indonesia and Malaysia/Vietnam, but excludes Australia.

5 Other includes Algeria, Tunisia and Trinidad and Tobago, but excludes Tunisia in 2003 and 2004.

Additional Information

Historical Financial Summary

Years ended December 31 (millions of C$ unless otherwise stated)	**2006[1]**	2005[1,2]	2004[1,2]	2003	2002	2001	2000	1999	1998	1997	1996
Balance sheets											
Current assets	**2,075**	2,347	970	975	917	799	1,042	730	272	471	362
Other assets	**152**	377	896	139	169	98	91	105	100	88	63
Goodwill	**1,543**	1,434	441	473	469	467	–	–	–	–	–
Property, plant and equipment	**17,691**	14,196	10,101	10,193	10,465	9,870	7,904	7,363	5,184	4,636	3,536
Total assets	**21,461**	18,354	12,408	11,780	12,020	11,234	9,037	8,198	5,556	5,195	3,961
Current liabilities	**3,163**	3,238	1,643	1,218	989	1,204	1,311	1,060	576	497	338
Deferred credits and other liabilities	**6,431**	5,058	3,477	3,343	3,448	3,043	2,363	1,345	781	795	633
Long-term debt	**4,560**	4,263	2,457	2,595	3,473	3,274	2,156	2,593	2,071	1,739	899
Minority interest	**–**	66	–	–	–	–	–	–	–	–	–
Shareholders' equity	**7,307**	5,729	4,831	4,624	4,110	3,713	3,207	3,200	2,128	2,164	2,091
Total liabilities and shareholders' equity	**21,461**	18,354	12,408	11,780	12,020	11,234	9,037	8,198	5,556	5,195	3,961
Income statements											
Revenue											
Gross sales	**9,362**	8,888	6,299	5,610	5,351	5,039	5,213	2,424	1,551	1,729	1,427
Less hedging loss (gain)	**(66)**	77	480	194	(75)	(8)	377	106	17	29	20
Gross sales, net of hedging	**9,428**	8,811	5,819	5,416	5,426	5,047	4,836	2,318	1,534	1,700	1,407
Less royalties	**1,603**	1,516	1,059	894	927	989	946	389	214	312	224
Net sales	**7,825**	7,295	4,760	4,522	4,499	4,058	3,890	1,929	1,320	1,388	1,183
Other	**119**	112	80	76	80	82	99	46	51	42	30
Total revenue	**7,944**	7,407	4,840	4,598	4,579	4,140	3,989	1,975	1,371	1,430	1,213
Expenses											
Operating	**1,651**	1,338	1,091	1,039	1,048	946	827	604	581	480	300
Transportation	**207**	185	174	181	194	–	–	–	–	–	–
General and administrative	**233**	201	183	152	138	108	95	70	59	57	56
Depreciation, depletion and amortization	**2,005**	1,689	1,479	1,435	1,462	1,283	1,103	729	597	532	425
Dry hole	**296**	241	311	251	174	113	77	51	91	42	65
Exploration	**318**	275	238	213	185	147	100	79	102	92	63
Interest on long-term debt	**166**	163	173	178	209	184	179	146	91	51	69
Stock-based compensation	**51**	633	171	185	–	–	–	–	–	–	–
Other	**(29)**	39	89	16	113	105	81	(150)	230	(15)	(25)
Total expenses	**4,898**	4,764	3,909	3,650	3,523	2,886	2,462	1,529	1,751	1,239	953
Gain on sale of Sudan operations	**–**	–	–	296	–	–	–	–	–	–	–
Income (loss) before taxes	**3,046**	2,643	931	1,244	1,056	1,254	1,527	446	(380)	191	260
Taxes											
Current income tax	**752**	978	427	229	258	342	334	49	15	38	51
Future income tax (recovery)	**552**	127	(143)	(53)	157	60	194	107	(93)	64	82
Petroleum revenue tax	**290**	184	128	92	124	149	150	31	20	32	35
	1,594	1,289	412	268	539	551	678	187	(58)	134	168
Net income (loss) from continuing operations	**1,452**	1,354	519	976	517	703	849	259	(322)	57	92
Income from discontinued operations	**553**	207	135	–	–	–	–	–	–	–	–
Net income (loss)	**2,005**	1,561	654	976	517	703	849	259	(322)	57	92

1 Adjusted for discontinued operations.

2 Restated to reflect reclassification of bank indebtedness.

Consolidated Financial Ratios

The following financial ratios are provided in connection with the Company's shelf prospectuses filed with Canadian and US securities regulatory authorities and are based on the Company's Consolidated Financial Statements that are prepared in accordance with accounting principles generally accepted in Canada.

The interest coverage ratio is for the 12-month period ended December 31, 2006.

(unaudited)	
Interest coverage (times)	
Income[1]	14.51
Interest coverage (times)	
Income from continuing operations[2]	12.23

1 Net income plus income taxes and interest expense, divided by the sum of interest expense and capitalized interest.

2 Net income from continuing operations plus income taxes and interest expense from continuing operations, divided by the sum of interest expense and capitalized interest from continuing operations.

Ratios and Key Indicators

Years ended December 31 (millions of C$ unless otherwise stated)	**2006**	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Net income (loss)	**2,005**	1,561	654	976	517	703	849	259	(322)	57	92
Cash flow[1]	**4,748**	4,672	2,916	2,691	2,603	2,425	2,356	1,098	631	797	697
Exploration and development spending	**4,578**	3,179	2,538	2,180	1,848	1,882	1,179	996	1,145	951	557
Acquisitions	**204**	3,170	330	768	276	1,624	431	1,692	343	731	552
Dispositions	**872**	22	88	1,112	72	162	81	133	157	71	58
Debt/debt + equity (%)	**38**	43	34	36	46	48	41	45	50	45	30
Debt/cash flow (times)	**1.0**	0.9	0.8	1.0	1.3	1.4	1.0	2.4	3.3	2.2	1.3
Per common share[5]											
Net income (loss) ($)	**1.84**	1.41	0.57	0.84	0.43	0.58	0.68	0.23	(0.32)	0.06	0.10
Cash flow ($)	**4.35**	4.23	2.54	2.32	2.16	2.00	1.90	0.98	0.63	0.81	0.75
Production (boe)	**0.162**	0.155	0.139	0.125	0.135	0.126	0.121	0.101	0.098	0.089	0.081
Proved gross reserves (at year-end) (boe)	**1.57**	1.49	1.32	1.18	1.26	1.24	0.97	0.88	0.83	0.75	0.62
Average royalty rate (%)	**17**	17	16	16	17	20	18	16	14	18	16
Unit operating costs ($/boe)	**9.98**	8.41	7.26	6.98	6.14	5.79	5.19	5.14	5.61	5.24	3.78
Unit depreciation, depletion and amortization ($/boe)	**12.09**	10.88	10.29	9.87	8.99	8.39	7.37	7.54	6.03	6.08	5.60
Return on capital employed (%)[2]	**19.3**	19.1	10.5	15.2	8.6	13.0	17.1	7.0	(6.1)	2.2	4.4
Return on active capital employed (%)[3]	**30.7**	25.7	12.2	17.7	10.3	16.0	20.2	8.6	(8.4)	2.8	5.3
Return on equity (%)[4]	**30.8**	29.6	13.8	22.3	13.2	20.3	26.5	9.7	(15.0)	2.7	4.9

1 Non-GAAP measure. See advisory on page 87.

2 Net income plus tax effected interest/(average shareholders' equity + average debt).

3 Net income plus tax effected interest/(average shareholders' equity + average debt – average non-depleted capital).

4 Net income/average shareholders' equity.

5 Prior years have been restated to reflect the Company's three-for-one share split in May 2006.

Historical Operations Summary

Years ended December 31	**2006**	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Daily average production											
Crude oil (bbls/d)											
North America	**36,280**	39,494	41,775	44,456	46,287	50,424	51,005	44,806	45,103	40,627	34,169
United Kingdom	**99,500**	104,982	114,019	108,207	124,965	108,163	109,096	57,267	54,988	48,065	30,675
Scandinavia	**31,346**	24,947	5,483	2,406	–	–	–	–	–	–	–
Southeast Asia	**49,872**	33,842	34,050	23,159	21,925	20,326	19,627	28,286	31,684	28,458	22,621
Other	**21,559**	25,488	13,537	19,633	60,109	53,257	45,869	11,726	–	–	–
Natural gas liquids (bbls/d)											
North America	**13,566**	14,117	12,618	12,473	13,521	12,851	12,829	10,918	9,818	8,054	7,598
United Kingdom	**3,242**	2,038	1,980	2,157	2,521	2,665	2,806	1,989	2,492	2,437	2,363
Scandinavia	**1,128**	749	379	305	–	–	–	–	–	–	–
Southeast Asia	**1,710**	1,634	1,594	1,271	544	547	579	566	–	–	–
Synthetic oil (Canada) (bbls/d)	**3,431**	2,693	2,999	2,649	2,868	2,781	2,540	2,765	2,664	2,536	2,534
Total oil and liquids	**261,634**	249,984	228,434	216,716	272,740	251,014	244,351	158,323	146,749	130,177	99,960
Natural gas (mmcf/d)											
North America	**910**	915	885	864	820	809	755	681	631	558	557
United Kingdom	**126**	111	111	108	122	108	122	115	104	100	90
Scandinavia	**14**	9	3	1	–	–	–	–	–	–	–
Southeast Asia	**292**	284	260	117	94	93	111	108	13	–	–
Total natural gas	**1,342**	1,319	1,259	1,090	1,036	1,010	988	904	748	658	647
Total (mboe/d)	**485**	470	438	398	445	419	409	309	271	240	208
WTI (US$/bbl)	**66.25**	56.70	41.40	30.99	26.15	25.92	30.26	19.30	14.37	20.61	22.02
NYMEX gas (US$/mmbtu)	**7.26**	8.55	6.09	5.44	3.25	4.38	4.30	2.27	2.08	2.48	2.67
US$/C$ exchange rate (year-end)	**0.8581**	0.8577	0.8308	0.7738	0.6331	0.6279	0.6666	0.6887	0.6511	0.6987	0.7298

Product Netbacks (Gross)[1]

The following table provides information on product netbacks on a gross basis in C$ on a quarterly basis for the periods indicated.

	2006					2005					2004
	Total	Three months ended				Total	Three months ended				Total
C$ Gross	Year	Dec 31	Sep 30	Jun 30	Mar 31	Year	Dec 31	Sep 30	Jun 30	Mar 31	Year
North America											
Oil and liquids ($/bbl)											
Sales price	56.73	50.90	63.29	63.34	49.58	52.62	54.84	60.92	48.16	46.50	42.11
Hedging loss	–	–	–	–	–	3.99	4.28	4.89	3.68	3.10	5.95
Royalties	11.91	10.20	13.29	13.56	10.60	10.79	10.69	12.83	9.77	9.87	8.59
Transportation	0.57	0.58	0.56	0.56	0.59	0.50	0.51	0.50	0.54	0.45	0.49
Operating costs	8.57	9.33	8.64	8.64	7.76	7.24	8.33	7.22	7.18	6.32	6.75
	35.68	30.79	40.80	40.58	30.63	30.10	31.03	35.48	26.99	26.76	20.33
Natural gas ($/mcf)											
Sales price	7.12	6.94	6.30	6.52	8.79	9.05	12.25	9.15	7.72	7.07	6.83
Hedging (gain) loss	(0.26)	(0.28)	(0.30)	(0.29)	(0.16)	–	–	–	–	–	0.10
Royalties	1.30	1.20	0.99	1.21	1.81	1.80	2.46	1.82	1.53	1.39	1.31
Transportation	0.19	0.17	0.18	0.18	0.23	0.19	0.23	0.19	0.18	0.17	0.20
Operating costs	1.07	1.05	1.06	1.16	1.02	0.90	0.95	0.96	0.88	0.79	0.79
	4.82	4.80	4.37	4.26	5.89	6.16	8.61	6.18	5.13	4.72	4.43
United Kingdom[2]											
Oil and liquids ($/bbl)											
Sales price	72.11	67.40	74.87	75.97	71.01	64.07	66.24	73.75	59.74	56.69	48.21
Hedging (gain) loss	0.52	0.12	0.95	0.95	0.21	(0.03)	(0.09)	–	–	–	7.74
Royalties	0.74	0.50	0.76	1.05	0.69	0.87	1.07	0.95	0.96	0.50	0.46
Transportation	1.52	1.58	1.65	1.52	1.38	1.21	1.26	1.16	1.14	1.24	1.17
Operating costs	19.83	21.38	21.08	22.01	15.86	16.67	16.38	17.58	18.11	14.93	12.64
	49.50	43.82	50.43	50.44	52.87	45.35	47.62	54.06	39.53	40.02	26.20
Natural gas ($/mcf)											
Sales price	8.50	7.52	7.53	8.61	10.11	7.30	8.76	6.25	6.37	7.14	5.57
Royalties	0.46	0.07	0.63	0.41	0.67	0.53	0.52	0.52	0.56	0.50	0.43
Transportation	0.33	0.37	0.34	0.24	0.36	0.42	0.40	0.37	0.49	0.41	0.28
Operating costs	0.71	0.84	0.59	0.63	0.78	0.91	1.11	0.77	0.73	0.93	0.57
	7.00	6.24	5.97	7.33	8.30	5.44	6.73	4.59	4.59	5.30	4.29
Scandinavia[2]											
Oil and liquids ($/bbl)											
Sales price	73.79	69.14	76.11	77.25	73.42	67.72	67.43	76.76	62.32	61.59	49.92
Royalties	0.33	0.24	0.48	0.31	0.32	0.05	0.14	–	–	–	–
Transportation	1.80	1.82	2.32	1.60	1.55	1.11	1.28	1.33	1.00	0.45	0.60
Operating costs	22.42	21.34	23.17	28.06	18.51	18.98	19.28	16.23	22.13	18.05	25.73
	49.24	45.74	50.14	47.28	53.04	47.58	46.73	59.20	39.19	43.09	23.59
Natural gas ($/mcf)											
Sales price	4.92	4.60	6.53	5.54	3.51	4.30	3.80	4.13	4.82	4.82	4.93
Transportation	1.10	1.14	1.52	(0.48)	2.04	1.48	0.43	1.59	2.30	2.33	2.39
	3.82	3.46	5.01	6.02	1.47	2.82	3.37	2.54	2.52	2.49	2.54

Product Netbacks (Gross)[1] (continued)

	2006					2005					2004
	Total	Three months ended				Total	Three months ended				Total
C$ Gross	Year	Dec 31	Sep 30	Jun 30	Mar 31	Year	Dec 31	Sep 30	Jun 30	Mar 31	Year
Southeast Asia											
Oil and liquids ($/bbl)											
Sales price	**74.62**	**67.21**	**79.01**	**78.92**	**73.49**	68.79	68.30	76.86	67.60	60.35	51.29
Royalties	**32.36**	**25.02**	**33.41**	**40.90**	**29.97**	27.28	27.27	28.73	27.46	25.27	21.24
Transportation	**0.27**	**0.35**	**0.31**	**0.20**	**0.22**	0.09	(0.12)	0.27	0.25	0.08	0.23
Operating costs	**6.63**	**6.19**	**7.71**	**7.41**	**5.22**	4.48	5.04	4.14	4.34	4.08	5.57
	35.36	**35.65**	**37.58**	**30.41**	**38.08**	36.94	36.11	43.72	35.55	30.92	24.25
Natural gas ($/mcf)											
Sales price	**6.95**	**5.75**	**7.37**	**7.57**	**7.08**	6.40	6.72	6.98	6.36	5.44	4.74
Royalties	**1.86**	**1.30**	**1.84**	**2.17**	**2.12**	1.95	1.98	2.14	1.88	1.75	1.19
Transportation	**0.38**	**0.35**	**0.43**	**0.37**	**0.38**	0.41	0.43	0.42	0.24	0.55	0.41
Operating costs	**0.36**	**0.43**	**0.36**	**0.31**	**0.34**	0.30	0.30	0.29	0.31	0.28	0.27
	4.35	**3.67**	**4.74**	**4.72**	**4.24**	3.74	4.01	4.13	3.93	2.86	2.87
Other[3]											
Oil ($/bbl)											
Sales price	**71.65**	**66.78**	**72.46**	**78.60**	**70.43**	65.40	66.26	71.94	62.72	59.81	51.17
Royalties	**22.41**	**23.93**	**23.58**	**23.03**	**20.08**	19.41	19.05	20.88	19.31	18.18	19.65
Transportation	**0.94**	**1.09**	**0.86**	**0.84**	**0.93**	1.00	0.96	0.97	0.99	1.08	1.76
Operating costs	**4.99**	**7.44**	**4.32**	**5.35**	**3.44**	3.89	3.97	3.68	3.08	5.07	3.51
	43.31	**34.32**	**43.70**	**49.38**	**45.98**	41.10	42.28	46.41	39.34	35.48	26.25
Total Company											
Oil and liquids ($/bbl)											
Sales price	**69.82**	**64.48**	**73.27**	**74.39**	**67.85**	62.78	64.62	71.51	58.58	55.40	47.45
Hedging loss	**0.21**	**0.05**	**0.36**	**0.37**	**0.09**	0.85	0.77	1.08	0.86	0.72	5.42
Royalties	**10.97**	**9.18**	**12.17**	**13.57**	**9.39**	8.64	8.81	9.89	8.32	7.41	6.84
Transportation	**1.07**	**1.14**	**1.15**	**1.01**	**1.01**	0.86	0.86	0.88	0.86	0.84	0.88
Operating costs	**14.11**	**14.91**	**14.49**	**15.74**	**11.71**	11.81	12.25	11.60	12.49	10.85	10.32
	43.46	**39.20**	**45.10**	**43.70**	**45.65**	40.62	41.93	48.06	36.05	35.58	23.99
Natural gas ($/mcf)											
Sales price	**7.20**	**6.72**	**6.65**	**6.94**	**8.52**	8.30	10.63	8.43	7.31	6.73	6.28
Hedging (gain) loss	**(0.17)**	**(0.19)**	**(0.20)**	**(0.19)**	**(0.10)**	–	–	–	–	–	0.07
Royalties	**1.33**	**1.11**	**1.13**	**1.36**	**1.73**	1.71	2.14	1.79	1.53	1.37	1.21
Transportation	**0.25**	**0.24**	**0.26**	**0.22**	**0.30**	0.27	0.29	0.26	0.22	0.28	0.26
Operating costs	**0.87**	**0.89**	**0.86**	**0.90**	**0.84**	0.76	0.82	0.79	0.74	0.69	0.66
	4.92	**4.67**	**4.60**	**4.65**	**5.75**	5.56	7.38	5.59	4.82	4.39	4.08

1 Unit operating costs include pipeline costs for the UK. Netbacks do not include synthetic oil.

2 In 2004 and 2005, the UK and Scandinavia were reported in aggregate.

3 North Africa, Trinidad and Tobago as well as other international areas have been reclassified as Other.

Net Production (After royalties)

Information on Net Production and Product Netbacks after royalties in US$ is provided for US readers.

	2006	2005	2004	2003	2002
Crude Oil and Liquids (bbls/d)					
North America	**39,382**	42,613	43,303	45,035	47,182
United Kingdom	**101,682**	105,582	114,906	110,580	122,231
Scandinavia	**32,327**	25,676	5,862	2,711	–
Southeast Asia	**29,211**	21,406	20,884	14,853	14,025
Other	**14,816**	17,994	8,338	10,348	36,346
Total oil and liquids	**217,418**	213,271	193,293	183,527	219,784
Natural Gas (mmcf/d)					
North America	**744**	733	715	678	665
United Kingdom	**119**	103	102	102	107
Scandinavia	**14**	9	3	1	–
Southeast Asia	**214**	198	194	110	89
Total natural gas	**1,091**	1,043	1,014	891	861
Total conventional (mboe/d)	**399**	387	362	332	363
Synthetic Oil (Canada)(mboe/d)	**3.0**	2.6	2.9	2.5	2.8
Total (mboe)	**402**	390	365	335	366

Product Netbacks (Net of royalties)[1,2]

Net of Royalties – US$		2006	2005	2004
North America	Oil and liquids (US$/bbl)			
	Sales price	**50.06**	43.55	32.44
	Hedging loss	–	4.16	5.81
	Transportation	**0.64**	0.52	0.48
	Operating costs	**9.57**	7.54	6.55
		39.85	31.33	19.60
	Natural gas (US$/mcf)			
	Sales price	**6.27**	7.51	5.26
	Hedging (gain) loss	**(0.28)**	–	0.10
	Transportation	**0.20**	0.20	0.19
	Operating costs	**1.15**	0.93	0.76
		5.20	6.38	4.21
United Kingdom	Oil and liquids (US$/bbl)			
	Sales price	**63.48**	53.10	37.17
	Hedging (gain) loss	**0.47**	(0.02)	6.06
	Transportation	**1.35**	1.01	0.91
	Operating costs	**17.66**	13.99	9.80
		44.00	38.12	20.40
	Natural gas (US$/mcf)			
	Sales price	**7.47**	6.06	4.29
	Transportation	**0.31**	0.37	0.24
	Operating costs	**0.66**	0.82	0.48
		6.50	4.87	3.57

Product Netbacks (Net of royalties)[1,2] (continued)

Net of Royalties – US$		2006	2005	2004
Scandinavia[3]	Oil and liquids (US$/bbl)			
	Sales price	**64.94**	56.41	38.36
	Transportation	**1.59**	0.93	0.46
	Operating costs	**19.86**	15.78	19.77
		43.49	39.70	18.13
	Natural gas (US$/mcf)			
	Sales price	**4.34**	3.57	4.35
	Transportation	**0.97**	1.21	2.11
		3.37	2.36	2.24
Southeast Asia[4]	Oil and liquids (US$/bbl)			
	Sales price	**65.84**	57.24	39.49
	Transportation	**0.42**	0.12	0.30
	Operating costs	**10.33**	6.18	7.32
		55.09	50.94	31.87
	Natural gas (US$/mcf)			
	Sales price	**6.13**	5.29	3.65
	Transportation	**0.46**	0.49	0.42
	Operating costs	**0.44**	0.35	0.27
		5.23	4.45	2.96
Other[5]	Oil (US$/bbl)			
	Sales price	**62.94**	54.10	39.48
	Transportation	**1.20**	1.17	2.20
	Operating costs	**6.37**	4.58	4.41
		55.37	48.35	32.87
Total Company	Oil and liquids (US$/bbl)			
	Sales price	**61.50**	52.07	36.57
	Hedging loss	**0.22**	0.82	4.90
	Transportation	**1.12**	0.83	0.79
	Operating costs	**14.77**	11.36	9.25
		45.39	39.06	21.63
	Natural gas (US$/mcf)			
	Sales price	**6.33**	6.89	4.84
	Hedging (gain) loss	**(0.19)**	–	0.07
	Transportation	**0.27**	0.28	0.25
	Operating costs	**0.94**	0.80	0.63
		5.31	5.81	3.89

1 Pursuant to US reporting practice, netbacks are calculated using US$ and production after deduction of royalty volumes.

2 Unit operating costs include pipeline costs for the UK. Netbacks do not include synthetic oil.

3 Scandinavia for 2004 excludes Denmark.

4 Southeast Asia for 2004 includes Indonesia and Malaysia/Vietnam, but excludes Australia.

5 Other for 2004 includes Algeria, but excludes Trinidad and Tobago and Tunisia.

Historical Gross Proved Reserves[1]

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Crude Oil and Liquids (mmbbls)											
Opening Balance	**736.1**	617.7	579.2	716.9	737.6	631.8	557.1	416.5	300.3	225.9	167.9
Discoveries, additions and extensions	**80.0**	77.7	74.0	53.3	90.2	143.9	72.5	62.0	83.3	68.7	33.8
Dispositions and acquisitions	**10.6**	97.1	29.7	(139.0)	1.5	36.7	57.2	111.3	67.3	29.0	35.6
Net revisions and transfers	**34.0**	33.8	17.3	26.3	(13.9)	15.8	33.5	24.1	18.2	23.2	24.3
Production	**(94.2)**	(90.2)	(82.5)	(78.3)	(98.5)	(90.6)	(88.5)	(56.8)	(52.6)	(46.5)	(35.7)
Closing Balance	**766.5**	736.1	617.7	579.2	716.9	737.6	631.8	557.1	416.5	300.3	225.9
Natural Gas (bcf)											
Opening Balance	**5,416.6**	5,223.2	4,695.5	4,607.3	4,496.5	3,272.3	3,221.0	2,834.4	2,663.5	2,301.7	1,901.8
Discoveries, additions and extensions	**564.1**	514.1	1,251.8	459.5	632.8	1,045.8	472.3	301.0	396.0	407.6	263.9
Dispositions and acquisitions	**(61.0)**	117.2	(50.3)	107.2	3.2	537.4	(53.9)	368.6	(51.7)	289.6	34.2
Net revisions and transfers	**(33.8)**	38.0	(212.1)	(80.1)	(146.0)	10.0	(5.0)	47.4	100.2	(95.2)	338.7
Production	**(483.0)**	(475.9)	(461.7)	(398.4)	(379.2)	(369.0)	(362.1)	(330.4)	(273.6)	(240.2)	(236.9)
Closing Balance	**5,402.9**	5,416.6	5,223.2	4,695.5	4,607.3	4,496.5	3,272.3	3,221.0	2,834.4	2,663.5	2,301.7
BOE (mmboe)[2]											
Opening Balance	**1,638.8**	1,488.3	1,361.9	1,484.7	1,487.0	1,177.2	1,094.0	888.8	744.2	609.5	485.0
Discoveries, additions and extensions	**174.1**	163.3	282.6	129.8	195.7	318.2	151.1	112.0	149.2	136.6	77.7
Dispositions and acquisitions	**0.4**	116.7	21.4	(121.1)	2.1	126.2	48.1	172.8	58.7	77.3	41.3
Net revisions and transfers	**28.4**	40.1	(18.2)	13.2	(38.4)	17.5	32.8	32.2	34.9	7.4	80.7
Production	**(174.7)**	(169.6)	(159.4)	(144.7)	(161.7)	(152.1)	(148.8)	(111.8)	(98.2)	(86.6)	(75.2)
Closing Balance (gross)	**1,667.0**	1,638.8	1,488.3	1,361.9	1,484.7	1,487.0	1,177.2	1,094.0	888.8	744.2	609.5

1 See oil and gas advisory on page 31.

2 Six mcf of natural gas equals one boe.

Probable Reserves[1]

	North America	United Kingdom	Scandinavia	Southeast Asia	Other	Total
Crude Oil and Liquids (mmbbls)						
Probable reserves at December 31, 2005	70.9	217.1	86.8	65.6	52.1	**492.5**
Discoveries, additions and extensions	(0.4)	12.6	(28.1)	14.6	3.1	**1.8**
Dispositions and acquisitions	(2.4)	46.9	–	–	–	**44.5**
Net revisions and transfers	(3.3)	(7.6)	16.1	1.8	(1.8)	**5.2**
Probable reserves at December 31, 2006	64.8	269.0	74.8	82.0	53.4	**544.0**
Natural Gas (bcf)						
Probable reserves at December 31, 2005	1,335.7	152.5	109.8	1,028.2	77.6	**2,703.8**
Discoveries, additions and extensions	117.0	35.2	(41.8)	(53.0)	(6.7)	**50.7**
Dispositions and acquisitions	(6.1)	(10.8)	–	–	–	**(16.9)**
Net revisions and transfers	(132.5)	14.6	0.8	28.6	0.9	**(87.6)**
Probable reserves at December 31, 2006	1,314.1	191.5	68.8	1,003.8	71.8	**2,650.0**
BOE (mmboe)[2]						
Probable reserves at December 31, 2005	293.5	242.5	105.2	237.0	65.0	**943.2**
Discoveries, additions and extensions	19.1	18.4	(35.1)	5.8	3.2	**11.4**
Dispositions and acquisitions	(3.4)	45.1	–	–	–	**41.7**
Net revisions and transfers	(25.3)	(5.0)	16.1	6.5	(2.8)	**(10.5)**
Probable reserves at December 31, 2006	283.9	301.0	86.2	249.3	65.4	**985.8**

1 Gross probable reserves, excluding sulphur and synthetic oil. See oil and gas advisory on page 31.

2 Six mcf of natural gas equals one boe.

Continuity of Gross Proved Reserves[1]

	North America[2]	United Kingdom	Scandinavia[3]	Southeast Asia[4]	Other[5]	Total
Crude Oil and Liquids (mmbbls)						
Total proved						
Proved reserves at December 31, 2003[6]	190.2	242.3	14.1	84.4	48.2	**579.2**
Discoveries, additions and extensions	17.3	29.8	–	13.0	13.9	**74.0**
Purchase of reserves	0.2	34.1	–	1.3	–	**35.6**
Sale of reserves	(2.6)	(3.3)	–	–	–	**(5.9)**
Net revisions and transfers	(2.2)	27.5	(2.9)	3.4	(8.5)	**17.3**
2004 Production	(19.9)	(42.5)	(2.1)	(13.0)	(5.0)	**(82.5)**
Proved reserves at December 31, 2004[6]	183.0	287.9	9.1	89.1	48.6	**617.7**
Discoveries, additions, and extensions	12.6	41.9	2.0	12.7	8.5	**77.7**
Purchase of reserves	0.2	32.8	42.1	22.1	0.8	**98.0**
Sale of reserves	–	–	(0.9)	–	–	**(0.9)**
Net revisions and transfers	(2.8)	32.5	1.8	(1.3)	3.6	**33.8**
2005 Production	(19.6)	(39.1)	(9.3)	(12.9)	(9.3)	**(90.2)**
Proved Reserves at December 31, 2005[6]	173.4	356.0	44.8	109.7	52.2	**736.1**
Discoveries, additions and extensions	10.4	28.8	28.6	(0.9)	13.2	**80.1**
Purchase of reserves	–	26.2	–	–	–	**26.2**
Sale of reserves	(8.8)	(6.8)	–	–	–	**(15.6)**
Net revisions and transfers	9.8	14.1	0.3	8.3	1.4	**33.9**
2006 Production	(18.2)	(37.5)	(11.8)	(18.8)	(7.9)	**(94.2)**
Proved reserves at December 31, 2006[6]	166.6	380.8	61.9	98.3	58.9	**766.5**
Proved Developed						
December 31, 2003	186.4	209.2	3.8	29.5	25.5	**454.4**
December 31, 2004	171.0	249.3	4.7	39.9	38.9	**503.8**
December 31, 2005	161.0	277.4	34.9	67.7	34.7	**575.7**
December 31, 2006	156.4	255.7	25.7	70.2	43.3	**551.3**
Natural Gas (bcf)						
Total proved						
Proved reserves at December 31, 2003[6]	2,644.9	241.6	13.5	1,572.0	223.5	**4,695.5**
Discoveries, additions and extensions	478.5	8.0	–	765.3	–	**1,251.8**
Purchase of reserves	22.8	0.1	–	–	–	**22.9**
Sale of reserves	(72.7)	(0.5)	–	–	–	**(73.2)**
Net revisions and transfers	(113.2)	(30.0)	(3.2)	(58.7)	(7.0)	**(212.1)**
2004 Production	(324.9)	(40.3)	(1.3)	(95.2)	–	**(461.7)**
Proved reserves at December 31, 2004[6]	2,635.4	178.9	9.0	2,183.4	216.5	**5,223.2**
Discoveries, additions and extensions	361.0	23.7	0.3	129.1	–	**514.1**
Purchase of reserves	16.8	56.9	4.4	38.9	1.4	**118.4**
Sale of reserves	(1.2)	–	–	–	–	**(1.2)**
Net revisions and transfers	28.6	16.3	(2.2)	(3.4)	(1.3)	**38.0**
2005 Production	(333.8)	(35.2)	(3.3)	(103.6)	–	**(475.9)**
Proved reserves at December 31, 2005[6]	2,706.8	240.6	8.2	2,244.4	216.6	**5,416.6**
Discoveries, additions and extensions	457.8	34.6	65.9	(9.1)	14.9	**564.1**
Purchase of reserves	3.7	–	–	–	–	**3.7**
Sale of reserves	(44.2)	(20.5)	–	–	–	**(64.7)**
Net revisions and transfers	13.0	(32.7)	7.4	(20.0)	(1.5)	**(33.8)**
2006 Production	(332.0)	(39.2)	(5.2)	(106.5)	(0.1)	**(483.0)**
Proved reserves at December 31, 2006[6]	2,805.1	182.8	76.3	2,108.8	229.9	**5,402.9**
Proved Developed						
December 31, 2003	2,404.0	218.8	1.3	920.9	–	**3,545.0**
December 31, 2004	2,207.3	158.6	2.0	858.2	–	**3,226.1**
December 31, 2005	2,226.5	183.5	6.2	793.2	0.9	**3,210.3**
December 31, 2006	2,295.0	126.4	8.6	1,307.8	0.5	**3,738.3**

1 See oil and gas advisory on page 31 of this Annual Financial Report.

2 North American gross proved reserves exclude synthetic crude oil reserves: 2004 – 41.2 mmbbls; 2005 – 40.2 mmbbls and 2006 – 38.9 mmbbls.

3 Scandinavia for 2003 and 2004 includes Norway, but excludes Denmark.

4 Southeast Asia for 2003 and 2004 includes Indonesia and Malaysia/Vietnam, but excludes Australia.

5 Other includes Algeria, Tunisia and Trinidad and Tobago, but excludes Tunisia in 2003 and 2004.

6 North America includes proved reserves in Canada of 190.2, 183.0, 173.4 and 166.6 mmbbls of crude oil and liquids as at December 31, 2003, 2004, 2005 and 2006, respectively, and 2,535.8, 2,482.3, 2,561.1 and 2,661.3 bcf of nautral gas as at December 31, 2003, 2004, 2005 and 2006 respectively.

Landholdings and Drilling

2006 Landholdings

(thousand acres)	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
North America						
Canada	3,374.6	1,753.4	9,085.6	4,771.9	**12,460.2**	**6,525.3**
United States	37.2	32.9	2,212.8	1,857.9	**2,250.0**	**1,890.8**
Frontiers[1]	–	–	1,905.9	1,208.8	**1,905.9**	**1,208.8**
Total North America	3,411.8	1,786.3	13,204.3	7,838.6	**16,616.1**	**9,624.9**
United Kingdom						
United Kingdom	296.6	198.6	2,134.4	1,107.5	**2,431.0**	**1,306.1**
Netherlands	217.1	26.4	128.0	64.0	**345.1**	**90.4**
Germany	–	–	1,536.0	768.0	**1,536.0**	**768.0**
Total United Kingdom	513.7	225.0	3,798.4	1,939.5	**4,312.1**	**2,164.5**
Scandinavia						
Norway	174.5	85.0	4,072.8	1,773.0	**4,247.3**	**1,858.0**
Denmark	10.4	3.1	130.2	36.8	**140.6**	**39.9**
Total Scandinavia	184.9	88.1	4,203.0	1,809.8	**4,387.9**	**1,897.9**
Southeast Asia						
Indonesia	511.6	107.9	5,663.0	833.6	**6,174.6**	**941.5**
Malaysia and Vietnam	268.3	118.8	3,475.3	1,976.0	**3,743.6**	**2,094.8**
Papua New Guinea	9.2	3.6	488.9	140.9	**498.1**	**144.5**
Australia	–	–	858.2	325.1	**858.2**	**325.1**
Total Southeast Asia	789.1	230.3	10,485.4	3,275.6	**11,274.5**	**3,505.9**
Other						
Algeria	76.8	5.2	–	–	**76.8**	**5.2**
Tunisia	3.9	0.2	804.7	79.4	**808.6**	**79.6**
Trinidad and Tobago	23.5	5.9	271.2	113.1	**294.7**	**119.0**
Other[2]	–	–	6,397.9	3,830.4	**6,397.9**	**3,830.4**
Total Other	104.2	11.3	7,473.8	4,022.9	**7,578.0**	**4,034.2**
Total International	1,591.9	554.7	25,960.6	11,047.8	**27,552.5**	**11,602.5**
Total Worldwide	5,003.7	2,341.0	39,164.9	18,886.4	**44,168.6**	**21,227.4**
Synthetic Oil	13.8	2.2	437.5	84.4	**451.3**	**86.6**

1 Frontiers includes Alaska and Northwest Territories.
2 Includes Colombia, Peru, Qatar and Scotian Slope.

2006 Drilling

The following table sets forth the number of wells[1] Talisman has drilled and tested or participated in drilling and testing, and the net[2] interest of Talisman in such wells. The number of wells drilled refers to the number of wells completed at any time during the fiscal year, regardless of when drilling was initiated. The term 'completion' refers to the installation of permanent equipment for the production of oil and gas, or, in the case of a dry hole, to reporting of abandonment to the appropriate agency.

		Exploration				Development				Total			
Year Ended December 31, 2006		Oil[3]	Gas[3]	Dry[4]	Total	Oil[3]	Gas[3]	Dry[4]	Total	Oil[3]	Gas[3]	Dry[4]	Total
North America													
Canada	Gross	8	110	3	**121**	186	353	7	**546**	194	463	10	**667**
	Net	4.2	75.7	1.6	**81.5**	91.8	235.2	7.0	**334.0**	96.0	310.9	8.6	**415.5**
United States	Gross	–	33	1	**34**	–	–	–	**–**	–	33	1	**34**
	Net	–	27.1	1.0	**28.1**	–	–	–	**–**	–	27.1	1.0	**28.1**
United Kingdom													
United Kingdom	Gross	1	–	2	**3**	20	–	–	**20.0**	21	–	2	**23**
	Net	0.9	–	0.3	**1.2**	7.3	–	–	**7.3**	8.2	–	0.3	**8.5**
Netherlands	Gross	–	1	–	**1**	–	4	–	**4**	–	5	–	**5**
	Net	–	0.1	–	**0.1**	–	0.2	–	**0.2**	–	0.3	–	**0.3**
Germany	Gross	–	–	1	**1**	–	–	–	**–**	–	–	1	**1**
	Net	–	–	0.5	**0.5**	–	–	–	**–**	–	–	0.5	**0.5**
Scandinavia													
Norway	Gross	1	–	1	**2**	5	–	–	**5**	6	–	1	**7**
	Net	0.6	–	0.4	**1.0**	2.1	–	–	**2.1**	2.7	–	0.4	**3.1**
Southeast Asia													
Indonesia	Gross	2	–	–	**2**	10	9	3	**22**	12	9	3	**24**
	Net	0.1	–	–	**0.1**	0.2	1.5	0.2	**1.9**	0.3	1.5	0.2	**2.0**
Malaysia/Vietnam	Gross	–	1	–	**1**	7	2	1	**10**	7	3	1	**11**
	Net	–	0.4	–	**0.4**	3.3	0.8	0.4	**4.5**	3.3	1.2	0.4	**4.9**
Australia	Gross	–	–	1	**1**	–	–	–	**–**	–	–	1	**1**
	Net	–	–	0.3	**0.3**	–	–	–	**–**	–	–	0.3	**0.3**
Other													
Algeria	Gross	5	–	1	**6**	7	–	–	**7**	12	–	1	**13**
	Net	0.5	–	0.1	**0.6**	1.1	–	–	**1.1**	1.6	–	0.1	**1.7**
Tunisia	Gross	–	–	–	**–**	2	–	–	**2**	2	–	–	**2**
	Net	–	–	–	**–**	0.1	–	–	**0.1**	0.1	–	–	**0.1**
Trinidad and Tobago	Gross	2	–	2	**4**	3	1	–	**4**	5	1	2	**8**
	Net	0.5	–	1.3	**1.8**	0.8	0.3	–	**1.1**	1.3	0.3	1.3	**2.9**
Other[5]	Gross	–	–	4	**4**	–	–	–	**–**	–	–	4	**4**
	Net	–	–	1.7	**1.7**	–	–	–	**–**	–	–	1.7	**1.7**
Total	Gross	19	145	16	**180**	240	369	11	**620**	259	514	27	**800**
	Net	6.8	103.3	7.2	**117.3**	106.7	238.0	7.6	**352.3**	113.5	341.3	14.8	**469.6**

1 The number of wells refers to gross wellbores, which is the total number of wells Talisman has drilled or participated in drilling, with a working interest. Service wells, including water injection, gas injection, water source and water disposal wells are not included. Multilaterals from the same wellbore are counted as a single wellbore. Stratigraphic test wells are included.

2 Net wellbores are the aggregate of the percentage working interest of the Company in each of the gross wellbores. Data is rounded to the nearest decimal and summed.

3 A productive oil or gas well is an exploratory or development well that is not a dry well.

4 A dry well (hole) is an exploratory or development well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.

5 Other includes Qatar, Colombia and Gabon.

Five Year Drilling Results

	2006	2005	2004	2003	2002
North America					
Total oil wells	**194**	171	137	204	146
Total gas wells	**496**	495	444	378	223
Drilling success (%)	**98**	97	94	93	87

	2006	2005	2004	2003	2002
International					
Total oil wells	**65**	51	57	51	55
Total gas wells	**18**	5	3	18	7
Drilling success (%)	**84**	81	77	90	77

Directors and Executives

Board of Directors

Douglas D. Baldwin[2,3,4,6]
Chairman, Talisman Energy Inc.
Alberta, Canada

James W. Buckee[2,5]
President and Chief Executive Officer
Talisman Energy Inc.
Alberta, Canada

William R.P. Dalton[1,5]
Corporate Director
Arizona, United States

Kevin S. Dunne[3,5,6]
Corporate Director
British Virgin Islands

Lawrence G. Tapp[1,4]
Chairman, ATS Automation Tooling Systems Inc.
British Columbia, Canada

Stella M. Thompson[2,4,5]
Principal, Governance West Inc.
President, Stellar Energy Ltd.
Alberta, Canada

Robert G. Welty[1,3]
Chairman and Director
Sterling Resources Ltd.
Alberta, Canada

Charles R. Williamson[3,4]
Corporate Director
California, United States

Charles W. Wilson[1,2,6]
Corporate Director
Colorado, United States

Executives

James W. Buckee
President and Chief Executive Officer

A. Paul Blakeley
Executive Vice-President, International Operations (East)

Philip D. Dolan
Vice-President, Finance and Chief Financial Officer

Ronald J. Eckhardt
Executive Vice-President, North American Operations

T. Nigel D. Hares
Executive Vice-President, International Operations (West)

Robert M. Redgate
Executive Vice-President, Corporate Services

M. Jacqueline Sheppard
Executive Vice-President, Corporate and Legal,
and Corporate Secretary

John 't Hart
Executive Vice-President, Exploration

1 Member of Audit Committee
2 Member of Executive Committee
3 Member of Governance and Nominating Committee
4 Member of Management Succession and Compensation Committee
5 Member of Pension Funds Committee
6 Member of Reserves Committee

Corporate Information

Executive Office

Talisman Energy Inc. 3400, 888 - 3rd Street SW
Calgary, Alberta, Canada T2P 5C5
Telephone: (403) 237-1234 Facsimile: (403) 237-1902
www.talisman-energy.com E-mail: tlm@talisman-energy.com

Select Field Offices

Talisman Energy (UK) Limited Talisman House, 163 Holburn Street,
Aberdeen, Scotland, United Kingdom AB10 6BZ
Telephone: 44 (1224) 352-500 Facsimile: 44 (1224) 354-300

Talisman Energy Norge A.S. Verven 4, 4 Etasje, Norway,
Telephone: 47 (5200) 2000 Facsimile: 47 (5200) 1500

Goal Petroleum (Netherlands) B.V. Atrium Bldg c/o Regus Centre,
Strawinskylaan 3159, Amsterdam, The Netherlands 1077ZX
Telephone: 31 (20) 540-8840 Facsimile: 31 (20) 540-8854

Talisman Energy (Qatar) Inc. Box 22630, Suite 2-1,
Al Jaber Tower, Museum Street, Doha, Qatar
Telephone: (974) 435-1815 Facsimile: (974) 435-0980

Talisman (Asia) Limited Setiabudi Atrium Office, Suite 402,
Jl. HR Rasuna Said kav. 62-Kuningan, Jakarta 12920, Indonesia
Telephone: 62 (21) 521-0650 Facsimile: 62 (21) 521-0660

Talisman Malaysia Limited Level 31, Menara Citibank,
165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia
Telephone: (603) 2055-2888 Facsimile: (603) 2162-6972

Talisman Vietnam Limited Landmark Building, Unit 703,
5B Ton Duc Thang St, Dist. 3, Ho Chi Minh City, Vietnam
Telephone: (848) 823-8232 Facsimile: (848) 823-8237

Fortuna Energy Inc. 203 Colonial Drive, Suite 101,
Horseheads, New York USA 14845
Telephone: (607) 795-1040 Facsimile: (607) 795-1041

Fortuna Exploration, 3601 C Street, Suite 370,
Anchorage, Alaska USA 33503
Telephone: (907) 644-4429 Facsimile: (907) 644-4892

Talisman (Trinidad) Petroleum Ltd., 9th Floor, Albion Plaza Energy Centre
22-24 Victoria Avenue, Port of Spain, Trinidad, West Indies
Telephone: (868) 625-1515 Facsimile: (868) 624-7999

Investor Relations Contacts

M. Jacqueline Sheppard
Executive Vice-President, Corporate and Legal,
and Corporate Secretary
(403) 237-1183

David W. Mann
Senior Manager, Corporate and
Investor Communications
(403) 237-1196

Christopher LeGallais
Senior Manager, Investor Relations
(403) 237-1957

Investor Information

Common Shares

Transfer agent
Computershare Investor Services Inc.
Calgary, Toronto, Montreal, Vancouver

Co-transfer agent
Computershare Trust Company N.A.

Authorized
Unlimited number of common shares and unlimited number of first and second preferred shares

Issued
1,063,928,405 common shares at December 31, 2006

Stock Exchange Listings

Common shares
Symbol: TLM
Canada: Toronto Stock Exchange
United States: New York Stock Exchange

Public Debt

Trustee
Computershare Trust Company of Canada
7.125% (US$) unsecured debentures
7.25% (US$) unsecured debentures
8.06% unsecured medium term notes
4.44% unsecured medium term notes

Trustee
JP Morgan Chase, London Branch
6.625% (UK£) unsecured notes

Trustee
Bank of Nova Scotia Trust Company of New York
5.125% (US$) unsecured notes
5.75% (US$) unsecured notes
5.85% (US$) unsecured notes
6.25% (US$) unsecured notes

Talisman is currently rated as
DBRS – BBB (high) (Stable)
Moody's – Baa2 (Stable)
S&P – BBB+ (negative outlook)

Private Debt

6.89% (US$) unsecured notes, Series B
6.68% (US$) unsecured notes

Dividends

In 2006, the Company paid dividends on Talisman's common shares totaling $0.15 per share. The dividends were paid on June 30 and December 29, 2006. Talisman's dividend policy is subject to review semi-annually by the Board of Directors.

Talisman confirms that all dividends paid to shareholders in 2006 are 'eligible dividends' pursuant to recently enacted provisions of the Income Tax Act (Canada). Furthermore, all dividends to be paid in 2007 and subsequent years will be eligible dividends for such purposes.

Over the last three-year period, Talisman paid semi-annual dividends on its common shares[1] totaling $0.10/share in 2004, $0.11/share in 2005 and $0.15/share in 2006.

1 All per share amounts have been adjusted to reflect the Company's three-for-one share splits, which were effected in May 2004 and May 2006.

Annual Meeting

The annual meeting of shareholders of Talisman Energy Inc. will be held at 10:30 am on Wednesday, May 9, 2007 in the Exhibition Hall, North Building of the Telus Convention Centre, 136 - 8th Avenue SE, Calgary, Alberta. Shareholders are encouraged to attend the meeting, but those who are unable to do so are requested to participate by voting, using one of the three available methods: (i) by telephone, (ii) by the Internet, or (iii) by signing and returning the Form of Proxy or Voting Instruction Form mailed with the Management Proxy Circular.

Market Information

COMMON SHARES[1]		2006 TSX	2006 NYSE	2005 TSX	2005 NYSE	2004 TSX	2004 NYSE
		(C$)	(US$)	(C$)	(US$)	(C$)	(US$)
Share price ($)	High	**24.84**	**21.62**	20.83	18.08	11.70	9.55
	Low	**16.12**	**14.21**	10.50	8.36	7.84	5.88
	Close	**19.80**	**16.99**	20.53	17.63	10.78	8.99
Shares traded (millions)	First quarter	**304.9**	**247.4**	298.2	107.7	258.6	70.2
	Second quarter	**291.4**	**211.9**	270.6	118.2	245.7	82.2
	Third quarter	**300.7**	**146.9**	278.1	125.7	243.9	57.6
	Fourth quarter	**290.6**	**174.1**	300.3	153.6	299.7	62.1
	Year	**1,187.6**	**780.3**	1,147.2	505.2	1,047.9	272.1
Year-end shares outstanding (millions)		**1,064**		1,099		1,126	
Weighted average shares outstanding (millions)		**1,092**		1,104		1,149	
Year-end stock options outstanding (millions)		**63.9**		64.5		62.4	

1 Prior years' per common share numbers have been adjusted to reflect the three-for-one share split in May 2006.

Advisories

Non-GAAP Financial Measures

Included in this Annual Financial Report are references to financial measures commonly used in the oil and gas industry such as cash flow and earnings from operations. These terms are not defined by GAAP in either Canada or the US. Consequently, these are referred to as non-GAAP measures. Cash flow, as commonly used in the oil and gas industry, represents net income before exploration costs, DD&A, future taxes and other non-cash expenses. Cash flow is used by the Company to assess operating results between years and against peer companies that use different accounting policies. Cash flow should not be considered an alternative to, or more meaningful than, cash provided by operating, investing and financing activities or net income as determined in accordance with Canadian GAAP as an indicator of the Company's performance or liquidity. A reconciliation of cash provided by operating activities to cash flow follows.

Year ended December 31 ($ millions)	**2006**	2005	2004
Cash provided by operating activities	**4,374**	4,871	3,119
Changes in non-cash working capital	**374**	(199)	(203)
Cash flow	**4,748**	4,672	2,916

Reserves Data and Other Oil and Gas Information

Please see the advisory in the MD&A on page 31 of this Annual Financial Report.

Abbreviations and Definitions

bbl	barrel
bbls	barrels
bbls/d	barrels per day
bcf	billion cubic feet
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
C$	Canadian dollars
DBRS	Dominion Bond Rating Service
FPSO	Floating Production, Storage and Offloading Vessel
Gj	gigajoule
LIBOR	London Interbank Offered Rate
mbbls/d	thousand barrels per day
mboe	thousand barrels of oil equivalent
mboe/d	thousand barrels of oil equivalent per day
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmbbls	million barrels
mmbbls/d	million barrels per day
mmboe	million barrels of oil equivalent
mmbtu	million British thermal units
mmcf	million cubic feet
mmcf/d	million cubic feet per day
Moody's	Moody's Investors Service
NYMEX	New York Mercantile Exchange
NYSE	New York Stock Exchange
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PRT	Petroleum Revenue Tax
PSC	Production Sharing Contract
S&P	Standard & Poor's Corp.
tcf	trillion cubic feet
TSX	Toronto Stock Exchange
UK	United Kingdom
US	United States of America
US$	United States dollar
WTI	West Texas Intermediate
£	Pound sterling

Natural gas is converted to oil equivalent at the ratio of six mcf to one boe. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalence conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Gross acres means the total number of acres in which Talisman has a working interest. Net acres means the sum of the fractional working interests owned in gross acres expressed as whole numbers and fractions thereof.

Gross production means Talisman's interest in production volumes (through working interests, royalty interests and net profits interests) before the deduction of royalties. Net production means Talisman's interest in production volumes after deduction of royalties payable by Talisman.

Gross wells means the total number of wells in which the Company has a working interest. Net wells means the sum of the fractional working interests owned in gross wells expressed as whole numbers and fractions thereof.

Conversion and Equivalency Factors

Imperial		Metric
1 ton	=	0.907 tonnes
1 acre	=	0.40 hectares
1 barrel	=	0.159 cubic metres
1 cubic foot	=	0.0282 cubic metres

Talisman has produced a separate Annual Report Summary, Corporate Responsibility Report and Corporate Governance Summary. These reports are available by contacting the Company and can also be viewed or downloaded at **www.talisman-energy.com**

TALISMAN ENERGY

3400, 888 - 3rd Street SW
Calgary, Alberta, Canada T2P 5C5
Telephone: (403) 237-1234
Facsimile: (403) 237-1902
tlm@talisman-energy.com
www.talisman-energy.com

TALISMAN

ENERGY

NOTICE OF

2007 ANNUAL MEETING OF SHAREHOLDERS

AND

MANAGEMENT PROXY CIRCULAR

TALISMAN

ENERGY

NOTICE OF
2007 ANNUAL MEETING OF SHAREHOLDERS
AND
MANAGEMENT PROXY CIRCULAR

TALISMAN

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

May 9, 2007

NOTICE IS HEREBY GIVEN that the annual meeting of the common shareholders (the "Meeting") of TALISMAN ENERGY INC. (the "Company") will be held in the Exhibition Hall, North Building of the Telus Convention Centre, 136 Eighth Avenue S.E., Calgary, Alberta, Canada, on Wednesday, May 9, 2007 at 10:30 a.m. (Mountain Daylight Time) for the following purposes:

1. to receive the annual report and the consolidated financial statements of the Company for the year ended December 31, 2006 together with the report of the auditor thereon;

2. to elect the directors for the ensuing year;

3. to appoint the auditor for the ensuing year; and

4. to transact such further and other business as may properly come before the Meeting or any adjournment thereof.

The procedures by which shareholders may exercise their right to vote with respect to matters at the Meeting will vary depending on whether a shareholder is a registered shareholder (that is, a shareholder who holds common shares directly in his, her or its own name and is entered on the register of common shareholders), or a non-registered shareholder (that is, a shareholder who holds common shares through an intermediary (an "Intermediary") such as a bank, trust company, securities dealer or broker). Non-registered shareholders are also advised that the voting procedures applicable to them will vary depending on whether they have given permission to their Intermediary to disclose their ownership information to the Company or have objected to their Intermediary's disclosure of this information.

Registered holders of common shares unable to attend the Meeting in person are requested to complete the enclosed form of proxy and return it in the envelope provided to the Company's transfer agent and registrar, Computershare Trust Company of Canada, 100 University Avenue, Toronto, Ontario, M5J 2Y1 no later than 10:30 a.m. (Eastern Daylight Time, Toronto, Ontario) on May 8, 2007, or one business day preceding any adjournment of the Meeting. Alternatively, telephone and Internet voting options are available. Please see the form of proxy for more details. Non-registered shareholders are advised to refer to the Company's management proxy circular and to the voting instruction form for instructions relevant to them.

Only registered holders of common shares of the Company at the close of business on March 12, 2007, or their duly appointed proxyholders, will be entitled to vote at the Meeting.

DATED at Calgary, Alberta this 13th day of March, 2007.

BY ORDER OF THE BOARD

M. Jacqueline Sheppard
Corporate Secretary

Full instructions explaining the process for a shareholder to attend the Meeting in person are set out in the management proxy circular accompanying this notice of Meeting. Shareholders who have questions may call Georgeson Shareholder Communications Canada Inc. toll-free at 1-866-909-6476 for further information.

TALISMAN

ENERGY

MANAGEMENT PROXY CIRCULAR

General Proxy Information

This management proxy circular (the "Circular") is furnished in connection with the solicitation of proxies by or on behalf of the management of TALISMAN ENERGY INC. (the "Company") for use at the annual meeting of common shareholders of the Company (the "Meeting") to be held in the Exhibition Hall, North Building of the Telus Convention Centre, 136 Eighth Avenue S.E., Calgary, Alberta, Canada, on Wednesday, May 9, 2007 at 10:30 a.m. (Mountain Daylight Time) and at any adjournment thereof, for the purposes set forth in the attached notice of Meeting ("Notice of Meeting"). Please read this Circular to obtain information about how shareholders may participate at the Meeting either in person or through the use of proxies.

Solicitation of Proxies

Proxies in the enclosed form are solicited by or on behalf of management of the Company. Solicitation of proxies will be primarily by mail, but employees and agents of the Company may also solicit proxies by telephone and by electronic means. Brokers, nominees or other persons holding shares of the Company in their names for others will be reimbursed for their reasonable charges and expenses in forwarding proxies and proxy material to non-registered shareholders. The Company has retained an independent proxy solicitation agent, Georgeson Shareholder Communications Canada Inc. ("Georgeson"), to assist in the solicitation of proxies for the Meeting, at a cost anticipated to not exceed $32,000 (not including disbursements). The Company will bear the cost of all proxy solicitations on behalf of management of the Company.

Distribution of Meeting Materials

This Circular and related Meeting materials are being sent to both registered and non-registered owners of common shares ("Common Shares") of the Company. If you are a non-registered owner, and the Company, through its agent, has sent these materials directly to you, your name and address and information about your holdings of securities have been obtained in accordance with applicable securities regulatory requirements from the intermediary (the "Intermediary") holding on your behalf. By choosing to send these materials to you directly, the Company (and not the Intermediary holding on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your voting instructions as specified in the request for voting instructions.

A shareholder may receive multiple packages of Meeting materials if the shareholder holds Common Shares through more than one Intermediary, or if the shareholder is both a registered shareholder and a non-registered shareholder for different shareholdings. Any such shareholder should repeat the steps to vote through a proxy, appoint a proxyholder or attend the Meeting, if desired, separately for each shareholding to ensure that all the Common Shares from the various shareholdings are represented and voted at the Meeting.

Voting Procedures

The procedures by which holders of Common Shares may exercise their right to vote with respect to matters at the Meeting will vary depending on whether the shareholder is registered or non-registered. All shareholders are advised to carefully read the voting instructions below that are applicable to them. Shareholders who have questions may call Georgeson toll-free at 1-866-909-6476 for further information.

Registered Shareholders

Shareholders of the Company are either registered or non-registered. Only a relatively small number of shareholders are registered. Registered shareholders hold Common Shares of the Company in their own names because they specifically requested that their names be registered on the records of the Company or they purchased their Common Shares directly from the Company and not through an Intermediary. Intermediaries include, among others, a securities broker or dealer required to be registered to trade or deal in securities, a securities depositary, a financial institution, or a trustee or administrator of a self-administered retirement savings plan, retirement income fund, education savings plan or other similar investment plan.

In order to vote with respect to matters being considered at the Meeting, registered shareholders must either:

- attend the Meeting in person; or
- communicate their voting instructions in accordance with the form of proxy provided by Computershare Trust Company of Canada ("Computershare").

Any proxy to be used at the Meeting must be received by Computershare at 100 University Avenue, Toronto, Ontario M5J 2Y1 no later than 10:30 a.m. (Eastern Daylight Time) on May 8, 2007 or one business day preceding any adjournment of the Meeting. Registered shareholders may vote by proxy by any of the following means:

- by mail to the address listed above (a pre-paid and pre-addressed envelope is enclosed);
- by hand or by courier to the address listed above;
- by telephone at 1-866-732-vote (8683); or
- by Internet at www.computershare.com/proxy.

Non-Registered Shareholders

Most shareholders are non-registered because their Common Shares are registered in the name of either (a) an Intermediary with whom the non-registered shareholder deals in respect of the Common Shares, or (b) a clearing agency (such as The Canadian Depository for Securities Limited) of which the Intermediary is a participant. There are two kinds of non-registered shareholders – those who have given permission to their Intermediary to disclose their ownership information to the Company (referred to as "non-objecting beneficial owners") and those who have objected to their Intermediary's disclosure of this information (referred to as "objecting beneficial owners"). Canadian securities laws permit the Company to request and obtain a list of its non-objecting beneficial owners from Intermediaries and use that list to distribute proxy-related materials directly to non-objecting beneficial owners. The Company has decided to take advantage of these provisions.

Non-objecting beneficial owners will receive a voting instruction form from Computershare. Objecting beneficial owners will receive a voting instruction form from their Intermediary. The voting instruction form that you will receive is similar to the form of proxy provided to registered shareholders. However, its purpose is limited to instructing the registered holder how to vote on your behalf. **No person will be admitted at the Meeting to vote by presenting a voting instruction form.**

In order to vote with respect to matters being considered at the Meeting, non-registered shareholders must communicate their voting instructions in accordance with the voting instruction form provided by Computershare (in the case of non-objecting beneficial owners) or their Intermediary (in the case of objecting beneficial owners). **Please note that non-registered shareholders seeking to attend the Meeting will not be recognized at the Meeting for the purpose of voting Common Shares registered in the name of an Intermediary or a clearing agency, unless the non-registered shareholder has been appointed as a proxyholder by the Intermediary or clearing agency.** See "Appointment of Proxyholder" below.

Authority of Proxyholder

Your Common Shares will be voted or withheld from voting in accordance with your instructions provided on your voting instruction form or form of proxy. **If you do not indicate a voting preference for an item of business presented, your Common Shares will be voted FOR the election of all individual directors named in this Circular and FOR the appointment of the auditor named in this Circular, all as more particularly described under the relevant sections of this Circular.**

The enclosed form of proxy or voting instruction form confers discretionary authority on the proxyholder in respect of amendments or variations to matters identified in the Notice of Meeting and other matters that may properly come before the Meeting or any adjournment thereof. As of the date of this Circular, management of the Company is not aware of any such amendments, variations or other matters to be presented at the Meeting other than those identified in the Notice of Meeting; however, if any such matter is presented, the proxy will be voted in accordance with the best judgment of the proxyholder named in the form. Where a shareholder has not specifically appointed a person as proxyholder, a management nominee will be the proxyholder, and the proxy will be voted in accordance with the best judgment of the management nominee.

Appointment of Proxyholder

The persons named as proxyholders to represent registered shareholders at the Meeting are D.D. Baldwin, Chairman of the Board and a director of the Company, and J.W. Buckee, President, Chief Executive Officer and a director of the Company. **A registered shareholder has the right to appoint a person or company other than those named to represent such shareholder at the Meeting.** To appoint a person other than D.D. Baldwin or J.W. Buckee as proxyholder, strike out the names of D.D. Baldwin and J.W. Buckee on the form of proxy provided and write the name of the person you would like to appoint as your proxyholder in the blank space provided. Alternatively, you can exercise your right to appoint another person as proxyholder by completing another proper form of proxy. In either case, registered shareholders should deliver the completed and executed form of proxy in the manner specified in the Notice of Meeting and under "Voting Procedures" above.

Similar procedures should be followed by a non-registered shareholder with respect to the completion of a voting instruction form provided by Computershare or the Intermediary, as applicable, although you should read the instructions on your voting instruction form and, if necessary, confirm

the instructions with either Computershare or your Intermediary, as applicable. If you are a non-registered shareholder and wish to attend the Meeting to vote in person, you must instruct Computershare or the Intermediary, as applicable, to appoint you as a proxyholder.

You should notify any person you appoint as your proxyholder if you wish to appoint someone other than D.D. Baldwin or J.W. Buckee. That person need not be a shareholder of the Company.

Revocation of Proxyholder

Shareholders may revoke their proxies or voting instructions as follows.

Proxies of registered shareholders submitted by mail, telephone or through the Internet using a form of proxy may be revoked by submitting a new proxy to Computershare before 10:30 a.m. (Eastern Daylight Time) on May 8, 2007, or one business day before any adjournment of the Meeting. Alternatively, a registered shareholder who wishes to revoke a proxy may do so by depositing an instrument in writing addressed to the attention of the Corporate Secretary and executed by the shareholder or by the shareholder's attorney authorized in writing. Such an instrument must be deposited at the registered office of the Company, located at Suite 3400, 888 Third Street S.W., Calgary, Alberta, T2P 5C5, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used. On the day of the Meeting or any adjournment thereof, a registered shareholder may revoke a proxy by depositing such an instrument in writing with the Chairman of the Meeting; however, it will not be effective with respect to any matter on which a vote has already been cast. In addition, a proxy may be revoked by any other manner permitted by law.

Objecting beneficial owners should contact the Intermediary through which they hold Common Shares in order to obtain instructions regarding the procedures for the revocation of any voting instructions that they previously provided to their Intermediary. Similarly, non-objecting beneficial owners should contact Computershare regarding the procedures for the revocation of any voting instructions that they previously provided to Computershare.

Voting Shares and Principal Holders Thereof

There were 1,048,518,305 Common Shares of the Company outstanding at March 1, 2007. Each Common Share is entitled to one vote on all matters to be voted upon at the Meeting.

To the knowledge of the directors or executive officers of the Company, there is no single shareholder who beneficially owns, directly or indirectly, or exercises control or direction over Common Shares carrying 10% or more of the voting rights attached to the Common Shares. Each of The Canadian Depository for Securities Limited and CEDE & Co. hold in excess of 10% of the Common Shares for the benefit of their respective participants.

Record Date

March 12, 2007 has been set as the record date for the purpose of determining the shareholders entitled to vote in respect of the matters to be voted upon at the Meeting, or any adjournment thereof.

Business of the Meeting

Election of Directors

The Board of Directors is elected annually and consists of such number as fixed from time to time by resolution of the directors, such number being not less than four and not more than 20. There are currently nine directors. The number of directors to be elected at the Meeting has been fixed at nine. Each elected director will hold office until the next annual meeting or until his or her successor is duly elected or appointed.

Management of the Company proposes to nominate for election as directors at the Meeting the persons listed in the following table. All proposed nominees have consented to be named in this Circular and to serve as directors if elected. Management has no reason to believe that any of the nominees will be unable to serve as directors but, should any nominee become unable to do so for any reason prior to the Meeting, the persons named in the enclosed form of proxy or voting instruction form, unless directed to withhold from voting, reserve the right to vote for other nominees at their discretion. Shareholders should note that the form of proxy or voting instruction form provides for voting for individual directors as opposed to voting for directors as a slate.

The form of proxy or voting instruction form permits shareholders to vote "for" or to "withhold" their vote for each director nominee. On February 28, 2007, the Board adopted a new policy which requires that any nominee for director who, on a ballot taken on the election of directors, has a greater number of votes withheld from voting than the number of votes received for his or her election shall tender his or her resignation to the Chairman of the Board of Directors, subject to acceptance by the Board. The policy only applies to uncontested elections, meaning elections where the number of nominees for election is equal to the number of directors to be elected as set out in the management proxy circular for the particular meeting. The Governance and Nominating Committee is required to consider the resignation having regard to the best interests of the Corporation and all factors considered relevant and to make a recommendation to the Board with respect to the action to be taken with respect to the resignation. The Board is required to make its decision and announce it in a press release within 90 days of the annual meeting including, if applicable, the reasons for rejecting a resignation offer. A director who is required to tender a resignation under the policy will not participate in the deliberations of the Governance and Nominating Committee or the Board on any resignation offers from the same meeting unless there are less than three directors who are not required to tender a resignation, in which event the Board will proceed in making the determination. If a resignation is accepted, the Board may fill the vacancy created by the resignation.

Shareholders should note that, as a result of the majority voting policy, a withhold vote is effectively the same as a vote *against* a director nominee in an uncontested election.

The following table sets forth information with respect to each of the nominees for election as a director, including all officer positions currently held with the Company, principal occupation or employment for the past five years or more, educational qualifications, other current public company directorships and directorships in non-public companies, organizations or other entities that require a significant time commitment on the part of the nominee. Each of the nominees has served as a director of the Company since the year he or she first became a director.

The Board of Directors has the following committees: the Audit Committee, the Executive Committee, the Governance and Nominating Committee, the Management Succession and Compensation Committee, the Pension Funds Committee and the Reserves Committee. For a description of the committees of the Board of Directors, see the Statement of Corporate Governance Practices set out in Schedule A to this Circular. Membership on the Board committees is also noted in the table below.

Name, City, Province or State and Country of Residence	Year First Became Director of the Company	Present Principal Occupation or Employment (including all officer positions currently held with the Company), Principal Occupation or Employment for the Past Five Years or More, Educational Qualifications, Other Current Public Company Directorships and Directorships in Non-Public Companies, Organizations or Other Entities that Require a Significant Time Commitment
Douglas D. Baldwin[2,3,4,6] Calgary, Alberta, Canada Age: 70[9]	2001	Douglas Baldwin is the Chairman of the Board of the Company. Mr. Baldwin was the President and Chief Executive Officer of TransCanada PipeLines Limited (pipeline and power company) from 1999 to 2001, Senior Vice-President and a Director of Imperial Oil Limited (natural resource company) from 1992 to 1998 and President and Chief Executive Officer of Esso Resources Canada Limited (natural resource company) from 1988 to 1992. Mr. Baldwin holds a Bachelor of Science degree in Chemical Engineering and was awarded an Honorary Doctor of Laws degree from the University of Calgary in 1999 and an Honorary Doctor of Laws degree from the University of Saskatchewan in 2003. Current public company directorships[7]: UTS Energy Corporation and Citadel Group of Funds. Other current directorships[8]: None.

Name, City, Province or State and Country of Residence	Year First Became Director of the Company	Present Principal Occupation or Employment (including all officer positions currently held with the Company), Principal Occupation or Employment for the Past Five Years or More, Educational Qualifications, Other Current Public Company Directorships and Directorships in Non-Public Companies, Organizations or Other Entities that Require a Significant Time Commitment
James W. Buckee[2,5] Calgary, Alberta, Canada Age: 60[9]	1992	James Buckee is the President and Chief Executive Officer of the Company. Dr. Buckee was the President and Chief Operating Officer of the Company (formerly BP Canada Inc.) prior to 1993 and Manager, Planning of BP Exploration Company Ltd. (natural resource company) prior to 1991. Dr. Buckee holds a Bachelor of Science degree (Honors) in Physics and a Doctorate in Astrophysics and was awarded an Honorary Doctor of Business Administration degree from The Robert Gordon University in 2006. Current public company directorships[7]: None. Other current directorships[8]: None.
William R.P. Dalton[1,5] Scottsdale, Arizona, United States Age: 63[9]	2005	William Dalton was Chief Executive of HSBC Bank plc (a British Clearing Bank) from 1998 to 2004, Executive Director of HSBC Holdings plc from 1998 to 2004, Global Head of Personal Financial Services for HSBC Group from 2002 to 2004 and held various positions in the Canadian operations of HSBC prior to 1998. Mr. Dalton holds a Bachelor of Commerce degree (Honors) and was awarded an Honorary Doctorate (Honorary Doctor of the University) by the University of Central England in Birmingham in 2001. Mr. Dalton is a Fellow of the Chartered Institute of Bankers of the UK and the Institute of Canadian Bankers. Current public company directorships[7]: First Choice Holidays plc Other current directorships[8]: HSBC Finance Inc., Associated Electric and Gas Insurance Services (AEGIS), AEGIS Managing Agency for Lloyds of London Syndicate 1225 and Swiss RE GB plc.
Kevin S. Dunne[3,5,6] Tortola, British Virgin Islands Age: 58[9]	2003	Kevin Dunne has held various international senior and executive management positions with BP plc (international integrated oil and gas company) including General Manager of Abu Dhabi Company for Onshore Oil Operations (ADCO), a BP joint venture, from 1994 to 2001, Corporate Associate President of BP Indonesia from 1991 to 1994 and Corporate Head of Strategy for the BP Group based in London from 1990 to 1991. Mr. Dunne holds a Bachelor's degree in Chemical Engineering and a Master's degree in Management Science. Mr. Dunne is a Fellow of the Institution of Chemical Engineers and a Chartered Engineer. Current public company directorships[7]: None. Other current directorships[8]: None.
Lawrence G. Tapp[1,4] Langley, British Columbia, Canada Age: 69[9]	2001	Lawrence Tapp is the Chairman of ATS Automation Tooling Systems Inc. (industrial automation company), Softchoice Corporation, Comcare Health Services and Mainstreet Equity Corporation. Mr. Tapp was the Dean of the Richard Ivey School of Business of the University of Western Ontario from 1995 to 2003, Executive in Residence of the Faculty of Management and Adjunct Professor of the University of Toronto from 1992 to 1995 and Vice Chairman, President and Chief Executive Officer of Lawson Mardon Group Limited (packaging conglomerate) from 1985 to 1992. Mr. Tapp holds a Bachelor of Arts degree and an Executive Master of Business Administration degree. Current public company directorships[7]: ATS Automation Tooling Systems Inc., Softchoice Corporation, CCL Industries Inc. and Mainstreet Equity Corporation. Other current directorships[8]: Nature Conservancy of Canada and Comcare Health Services.

Name, City, Province or State and Country of Residence	Year First Became Director of the Company	Present Principal Occupation or Employment (including all officer positions currently held with the Company), Principal Occupation or Employment for the Past Five Years or More, Educational Qualifications, Other Current Public Company Directorships and Directorships in Non-Public Companies, Organizations or Other Entities that Require a Significant Time Commitment
Stella M. Thompson[2,4,5] Calgary, Alberta, Canada Age: 62[9]	1995	Stella Thompson is a Principal of Governance West Inc. (corporate governance consulting company) and President of Stellar Energy Ltd. (energy and management consulting company). Ms. Thompson was Vice-President, Planning, Business Information & Systems of Petro-Canada Products (petroleum refining and marketing company) prior to June 1991. Ms. Thompson holds a Bachelor of Arts degree in Economics and a Master of Arts degree in Economics and has been awarded the ICD.D designation by the Institute of Corporate Directors. Current public company directorships[7]: None. Other current directorships[8]: Atomic Energy of Canada Ltd., Alberta's Electricity Balancing Pool, Calgary Airport Authority and Genome Alberta (Vice Chair).
Robert G. Welty[1,3] Calgary, Alberta, Canada Age: 67[9]	2003	Robert Welty is the Chairman and a Director of Sterling Resources Ltd. ("Sterling") (oil and gas exploration and development company). Mr. Welty was the Chief Executive Officer of Sterling from 1998 to 2005, President of Escondido Resources (International) Ltd. (oil and gas exploration company) from 1996 to 1997, President and Chief Executive Officer of Canadian Fracmaster Ltd. (oil field service company) from 1994 to 1995, President and Chief Executive Officer of Bow Valley Energy Inc. (oil and gas exploration and development company) from 1992 to 1994 and President and Chief Executive Officer of Asamera Inc. (oil and gas exploration and development company) from 1976 to 1988. Mr. Welty holds a Bachelor of Arts degree (Honors) in Economics and is a Chartered Accountant. Current public company directorships[7]: Sterling Resources Ltd. Other current directorships[8]: None.
Charles R. Williamson[3,4] Sonoma, California, United States Age: 58[9]	2006	Charles Williamson was the Executive Vice-President of Chevron Corporation (integrated oil and gas company) from August to December 2005, Chairman and Chief Executive Officer of Unocal Corporation ("Unocal") (oil and gas exploration and development company) from 2001 to 2005 and held various executive positions within Unocal, including Executive Vice President, International Energy Operations and Group Vice President, Asia Operations prior to 2001. Dr. Williamson holds a Bachelor of Science degree in Geology, a Master of Science degree in Geology and a Doctorate in Geology. Current public company directorships[7]: Weyerhaeuser Inc. and PACCAR Inc. Other current directorships[8]: None.
Charles W. Wilson[1,2,6] Evergreen, Colorado, United States Age: 67[9]	2002	Charles Wilson was the President and Chief Executive Officer of Shell Canada (integrated oil and gas company) from 1993 to 1999, Executive Vice President US Downstream Oil and Chemical of Shell Oil Company (integrated oil and gas company) from 1988 to 1993, Vice President US Refining and Marketing of Shell Oil Company and has held various positions in the domestic and international natural resource operations of Shell prior to 1988. Mr. Wilson holds a Bachelor of Science degree in Civil Engineering and a Master of Science degree in Engineering. Current public company directorships[7]: ATCO Ltd., Akita Drilling Ltd., Big Rock Brewery Income Trust and Canadian Utilities Limited. Other current directorships[8]: None.

1 Member of the Audit Committee.
2 Member of the Executive Committee.
3 Member of the Governance and Nominating Committee.
4 Member of the Management Succession and Compensation Committee.
5 Member of the Pension Funds Committee.
6 Member of the Reserves Committee.
7 Refers only to issuers that are reporting issuers or the equivalent in a foreign jurisdiction.
8 Refers to directorships of non-public companies, organizations or other entities that require a significant time commitment from the nominee listed.
9 Ages are calculated as at March 1, 2007.

Information is given below with respect to the direct and indirect beneficial ownership of, or control or direction over, Common Shares and deferred share units of the Company by: (1) each of the nominees for election as director; and (2) by all nominees for election as director and all executive officers appointed by the Board of Directors, as a group. Effective January 1, 2001, the Company adopted a Deferred Share Unit Plan to support the alignment of director and shareholder interests. In 2005, the directors revised the director share ownership policy to link the required director ownership levels to annual retainers for Board members. More information about the Deferred Share Unit Plan and director ownership levels is provided in this Circular under the heading "Remuneration of Directors" and in Schedule A under "Director Share Ownership Policy".

Name of Beneficial Owner	Common Shares Beneficially Owned[1]	Deferred Share Units[4]
Douglas D. Baldwin	37,500	80,808
James W. Buckee	561,255	0
William R.P. Dalton	0	4,185
Kevin S. Dunne	9,000	13,004
Lawrence G. Tapp	21,366	11,205
Stella M. Thompson	22,500	22,589
Robert G. Welty	22,500	19,986
Charles R. Williamson	0	8,319
Charles W. Wilson	9,000	36,157
Subtotal for all nominees for election as director	683,121	196,253[3]
Total for all nominees for election as director and executive officers appointed by the Board of Directors	1,131,853[2]	196,253

1 The information regarding Common Shares beneficially owned, directly or indirectly, or over which control or direction is exercised, not being within the knowledge of the Company, has been supplied by each nominee for director individually. The information is as of March 1, 2007.

2 Represents 0.11% of the Common Shares of the Company outstanding at March 1, 2007.

3 Deferred share units are held by non-employee directors only.

4 In 2004, the Board of Directors approved a new compensation structure for non-executive directors, which requires non-executive directors to allocate at least 40% of their annual Board retainer towards deferred share units.

In 2003, Stella Thompson was a director of Laidlaw Inc., a public holding company, when it obtained an order in the United States Bankruptcy Court for the Western District of New York confirming its plan of reorganization and an order from the Ontario Superior Court of Justice under the *Companies' Creditors Arrangement Act* (Canada) recognizing and implementing the plan in Canada.

Appointment of Auditor

Shareholders will be asked at the Meeting to pass a resolution reappointing Ernst & Young LLP, Chartered Accountants, as auditor of the Company, to hold office until the next annual meeting of shareholders. To be effective, the resolution must be passed by a majority of the votes cast thereon by the shareholders at the Meeting. Ernst & Young LLP or its predecessor has been auditor of the Company or its predecessor since 1982.

Information Relating to the Company

Compensation of Directors and Executive Officers

Composition and Role of the Management Succession and Compensation Committee

The Company's executive compensation program is administered by the Management Succession and Compensation Committee (the "Compensation Committee") of the Board of Directors. The Compensation Committee has, as part of its mandate, responsibility for the remuneration of the Executive Officers of the Company. The Compensation Committee also evaluates the performance of the Company's Executive Officers and reviews the design and competitiveness of the Company's incentive compensation programs. For this purpose, "Executive Officers" means the President and Chief Executive Officer, the Vice-President, Finance and Chief Financial Officer, and Executive Vice-Presidents in charge of a principal business unit or function of the Company or its subsidiaries. At December 31, 2006, the members of the Compensation Committee were: Douglas D. Baldwin, Lawrence G. Tapp, Stella M. Thompson and Charles R. Williamson. None of the members of the Compensation Committee is, or has ever been, an officer or an employee of the Company or any of its subsidiaries. The Compensation Committee meets at least twice annually or more often as needed.

Introduction and Objectives

The compensation philosophy of the Company is to reward employees, including the Chief Executive Officer and all other Executive Officers, commensurate with personal achievements and the success of the Company. In doing so, all salaried employees place an element of compensation at risk. This provides the Company with flexibility and the individual with incentive to outperform expectations. The objectives of the compensation program are to attract, retain and motivate high-quality staff and to provide a sense of proprietorship.

Compensation Program Design

Total compensation for all salaried staff including the Chief Executive Officer and all other Executive Officers consists of four elements: base pay, variable pay (both of which are paid in cash), long-term incentives and benefits. Variable pay is an integral element of compensation necessary to keep an individual's total compensation at a competitive level. The levels of variable pay (as a percentage of actual base earnings) are as follows:

Position	2006 Variable Pay Target	2006 Variable Pay Range
President and Chief Executive Officer	100%	0-200%
Executive Vice-Presidents	60%	0-120%
Vice-Presidents	45%	0-90%

The combination of base pay and variable pay targets is referred to as "target total cash compensation" and is the basis on which market competitiveness is evaluated. For 2006, target total cash compensation was aimed at the top quartile of a comparable group of select senior oil and gas producers.

The compensation system is designed to ensure that actual total cash compensation received by the Chief Executive Officer and all other Executive Officers, as with all salaried staff, will be significantly higher than comparable positions in comparable companies when the Company performs well, and significantly lower than the market if the Company under-performs. The weighting of corporate financial and operational objectives versus individual leadership and strategic objectives in determining variable pay is split 70/30 for the Chief Executive Officer, 50/50 for Executive Vice-Presidents, and 45/55 for Vice-Presidents. Corporate objectives relate to factors including, but not limited to, cash flow per share, income, reserves, production volumes, capital expenditures, per barrel of oil equivalent costs (finding and development, operating and general and administrative), share price appreciation relative to select senior oil and gas producers, as well as health, safety and environmental performance. Measurable and defined objectives are set annually to address these standards and other strategic initiatives. The Compensation Committee also applies a subjective analysis of strategic leadership issues in determining final total cash compensation. Variable pay in respect of the current year's performance is paid in a lump sum in April of the following year after a full assessment of individual and corporate results.

The long-term incentive program is comprised of stock options granted annually by the Compensation Committee to the Named Executive Officers as shown in Tables 2 and 3 and other employees. The program only has value to the extent that additional shareholder value is created over time. Stock options are viewed as an important aspect of total compensation for senior staff, serving to align the interest of executives with those of the shareholders. Option grants increase in size with the employee's level in the Company.

The Company amended all outstanding stock options in 2003 to include a cash payment feature (tandem Stock Appreciation Right (SAR)). Specifically, the cash payment feature provides the optionholder the right to surrender the exercisable option for cancellation in return for a cash payment from the Company. The cash payment is based on the number of options cancelled, multiplied by the amount by which the market price of the Common Shares at the time of surrender exceeds the strike price of the option. The inclusion of the cash payment feature in options granted enables the Company to provide similar benefits to optionholders without increasing the outstanding Common Shares, to the extent that optionholders utilize this feature. Since inception, 97% of options were exercised utilizing the cash payment feature.

Options are granted at the market value of the Common Shares on the day prior to the date of the grant and in a number that is at or above the median value of long-term incentives provided by upstream oil and gas industry companies, as reported through independent consulting surveys which are reviewed annually. Option grants can be increased to respond to specific corporate or individual circumstances as a means of increasing incentive. Options generally vest after three years and expire within ten years of issuance.

In addition to base pay, variable pay and stock options, various perquisites and other benefits are provided on a market competitive basis. Executive Officers are also eligible to receive non-pensionable performance bonuses. These bonuses are usually project-related and acknowledge extraordinary achievements.

Effective January 1, 2005, the Company adopted executive share ownership guidelines to further support the Company's belief that share ownership requirements better align the interest of executives to those of shareholders. The guidelines require holdings by the Chief Executive Officer of four times annual base salary, Executive Vice-Presidents of two times annual base salary and by Vice-Presidents of one times annual base salary. In calculating ownership, the aggregate value of Common Shares owned (including beneficial ownership), and the net value of all exercisable stock

options are used. Individuals are provided up to five years from the implementation of these guidelines, or from his or her appointment to an executive position, to reach the minimum required level of share ownership. All Executive Officers currently meet executive share ownership guideline requirements.

2006 Executive Compensation

Total compensation of Executive Officers was reviewed at the Compensation Committee meeting in February 2006. The Compensation Committee approved market adjustments to base salaries for Executive Officers at that time, following a review of the peer group of companies used to establish compensation levels for the executive group. This peer group consists of oil and gas companies of similar size and with similar international challenges as the Company. This international comparator group reflects the combined domestic and international scope of responsibilities at the executive level and the broader geographic employment market.

In determining the 2006 variable pay for all Executive Officers, the Compensation Committee reviewed 2006 corporate performance against targets previously set out for financial and operational measures outlined under the heading "Compensation Program Design". The Compensation Committee also reviewed the individual performance of all Executive Officers in 2006 against their individual financial, operational, strategic and leadership targets established for 2006, which are a subset of the corporate performance targets. Based on these detailed reviews, variable payouts for 2006 performance were approved, as shown in Table 1 and will be paid on April 1, 2007.

2006 CEO Performance and Compensation

In determining the 2006 variable pay for the Chief Executive Officer, the Compensation Committee reviewed 2006 corporate performance against targets previously set out for financial and operational measures outlined under the heading "Compensation Program Design". The Compensation Committee also reviewed the individual performance of the Chief Executive Officer in 2006 against his individual financial, operational, strategic and leadership targets established for 2006, as outlined in the following chart. Based on this detailed review, variable payout for 2006 performance was approved, as shown in Table 1 and will be paid on April 1, 2007.

2006 CEO Goals and Results

Performance Category	Goals	Highlights of 2006 Results
Financial (35%)	– Net income	$2.005 Billion (record)
	– Cash flow	$4.748 Billion (record)
	– Net capital investment	$4.011 Billion
	– Share price to exceed performance of oil and gas producers' index (TSR)	TLM: –2.9% on NYSE and TSX SP500 O&G index: +4.65% S&P/TSX O&G index: +1.26%
Operational (35%)	– Production	177.1 mmboe (4.4% production/share growth)
	– Reserves Additions	203.0 mmboe
	– Operating Costs	$6.95/boe North America $12.17/boe Rest of World
	– Netback[1]	$36.98/boe
	– Health, safety and environment	Difficult year with respect to safety performance
Strategic and Other (20%)	– Paladin acquisition, financing and integration	Successfully completed
	– Disposition of non-core assets	Asset sales completed in North America and United Kingdom at attractive sales prices
	– Focused exploration activities	Alaska, Trinidad, Southeast Asia
	– Establishment and approval of corporate strategy	Completed at Board level
	– Staffing objectives and succession planning	Successful recruitment and retention in difficult market
	– Corporate ethics standards and maintenance of Policy on Business Conduct and Ethics	Completed for all staff
Leadership (10%)	– Active and visible support for Talisman's public and corporate profile	Done
	– Demonstrated leadership	Done

1 Gross selling price adjusted for hedging gains/losses minus royalty payments and operating and transportation costs

2006 CEO Total Compensation Summary

	2006	2005	2004	2003	2002
Cash compensation					
Base Salary	$ 1,186,025	$ 1,104,300	$ 1,047,875	$ 997,500	$ 945,500
Bonus/Variable Pay	$ 1,186,025	$ 1,988,000	$ 1,886,175	$ 1,468,077	$ 681,000
Total Cash	$ 2,372,050	$ 3,092,300	$ 2,934,050	$ 2,465,577	$ 1,626,500
Total Equity Value					
Number of Stock Options[1]	687,000	900,000	990,000	900,000	990,000
Theoretical Value of Stock Options[2]	$ 4,194,018	$ 3,532,620	$ 2,881,666	$ 2,138,940	$ 3,773,468
Total Direct Compensation	$ 6,566,068	$ 6,624,920	$ 5,815,716	$ 4,604,517	$ 5,399,968
Annual Pension Service Costs	$ 3,913,000	$ 5,329,700	$ 3,659,700	$ 2,254,800	$ 2,080,700
Metrics					
Share Price Performance	–4%	90%	32%	29%	–6%
% Change in Total Enterprise Value	–4%	83%	22%	10%	–6%
Production Growth Per Share	4%	11%	11%	–7%	7%

1 Reflects a three-for-one division of issued and outstanding Common Shares that occurred in May 2006.

2 Theoretical Black–Scholes value in year granted.

Submitted by the Management Succession and Compensation Committee of the Board of Directors of Talisman Energy Inc.

Lawrence G. Tapp, Chairman
Douglas D. Baldwin
Stella M. Thompson
Charles R. Williamson

Summary of Executive Compensation

Aggregate Compensation

During the financial year ended December 31, 2006, there were ten[1] Executive Officers of the Company who received, in aggregate, cash remuneration of $9,831,907. Cash payments made through the Employee Stock Option Plan are reported in Table 3. The aggregate value of all other remuneration furnished to the ten Executive Officers during the financial year was $365,489, comprised of the value of Company supplied vehicles and parking, as well as club memberships, financial counseling, certain taxable benefits, vacation payout, and any provincial health care premiums paid by the Company on behalf of certain Executive Officers.

1 The Executive Vice-President, Marketing and Executive Vice-President, Finance and Chief Financial Officer retired on April 1, 2006 and December 31, 2006 respectively.

Individual Compensation

The following table summarizes, for the periods indicated, the compensation of the Company's Chief Executive Officer, the former Executive Vice-President, Finance and Chief Financial Officer, the Vice-President and Chief Financial Officer and each of the three most highly compensated other Executive Officers on December 31, 2006 (collectively, the "Named Executive Officers").

Table 1: Summary Compensation

		Annual Compensation			Long-Term Compensation Awards	
Name and Principal Position	Year	Salary ($)	Bonus/ Variable Pay[1] ($)	Other Annual Compensation[2] ($)	Common Shares Under Option Grants[3] (#)	All Other Compensation[4] ($)
President and Chief Executive Officer James W. Buckee	2006	1,186,025	1,186,025	–	687,000	160,504
	2005	1,104,300	1,988,000	–	900,000	151,704
	2004	1,047,875	1,886,175	62,762	990,000	123,484
Executive Vice-President, Finance and Chief Financial Officer Michael D. McDonald[5]	2006	479,525	287,715[7]	61,177	208,500	50,027
	2005	449,125	485,328[7]	–	264,000	47,256
	2004	418,900	452,740[7]	–	360,000	42,897
Vice-President, Finance and Chief Financial Officer Philip D. Dolan[6]	2006	284,563	102,443[7]	–	58,800	57,962
Executive Vice-President, International Operations (West) T. Nigel D. Hares	2006	553,800	315,666[7]	–	252,000	54,491
	2005	546,575	500,328[7]	–	327,000	57,947
	2004	512,425	569,120[7]	–	360,000	49,937
Executive Vice-President, Corporate and Legal, and Corporate Secretary M. Jacqueline Sheppard	2006	553,350	365,211[7]	–	240,000	58,219
	2005	520,525	575,328[7]	–	310,500	55,119
	2004	484,925	538,595[7]		360,000	50,197
Executive Vice-President, North American Operations Ronald J. Eckhardt	2006	498,000	328,680[7]	–	210,000	51,701
	2005	451,500	500,328[7]	–	261,000	45,885
	2004	402,500	422,953[7]	–	360,000	33,041

1 Amounts listed are variable pay unless otherwise noted. Variable pay for 2006 is payable on April 1, 2007.

2 Except for James W. Buckee in 2004, and Michael D. McDonald in 2006, the perquisites and other personal benefits do not exceed the lesser of $50,000 and 10 percent of the total annual salary and bonus of the Named Executive Officers. In 2006, Mr. McDonald incurred a taxable benefit for the purchase of his vehicle in the amount of $40,526.

3 All options granted vest three years from the date of grant, subject to early vesting provisions in the event of a change of control or a Named Executive Officer retiring. Reflects a three-for-one division of issued and outstanding Common Shares that occurred in May 2006.

4 Includes the value of the Company's Savings Plan and, where applicable, Defined Contribution Pension contributions, life insurance premiums paid by the Company, and flex credits under the flexible benefits plan.

5 Effective December 31, 2006, Michael D. McDonald retired from the Company.

6 Effective December 1, 2006, Philip D. Dolan was appointed Vice-President, Finance and Chief Financial Officer.

7 Includes a non-pensionable holiday bonus of $327.87 in 2004, $327.87 in 2005 and $327.87 in 2006.

Stock Option Program

The following table sets forth stock options granted under the Company's Employee Stock Option Plan (the "ESOP") during the financial year ended December 31, 2006 to each of the Named Executive Officers. Further information as to the operation of the ESOP is set forth under the section entitled "Securities Authorized for Issuance Under Equity Compensation Plans" below.

Table 2: Option/SAR Grants During 2006

	Common Shares Under Options Granted (#)[1]	% of Total Options Granted to Employees in 2006	Exercise Price ($/Common Share)	Market Value of Common Shares on the Date of Grant[2] ($/Common Share)	Expiration Date
James W. Buckee	687,000	6.54	19.69	19.69	March 8, 2016
Michael D. McDonald	208,500	1.99	19.69	19.69	March 8, 2016
Philip D. Dolan	58,800	0.56	19.69	19.69	March 8, 2016
T. Nigel D. Hares	252,000	2.40	19.68	19.68	July 6, 2016
M. Jacqueline Sheppard	240,000	2.29	19.69	19.69	March 8, 2016
Ronald J. Eckhardt	210,000	2.00	19.69	19.69	March 8, 2016

1 The options granted to T. Nigel D. Hares were granted on July 7, 2006. All other options were granted on March 9, 2006. Subject to early vesting provisions in the event of a change of control or a Named Executive Officer retiring, options vest three years from the date of grant. The options include the cash payment feature (tandem Stock Appreciation Right (SAR)), described under the Compensation Program Design section. Reflects a three-for-one division of issued and outstanding Common Shares that occurred in May 2006.

2 Determined by calculating the mean of the high and low reported prices at which Common Shares were traded on the Toronto Stock Exchange (the "TSX") on the day prior to the date of grant.

At December 31, 2006, 13,806,600 options to acquire Common Shares of the Company were held by individuals who were Executive Officers of the Company during 2006. Including the options described in Table 3, options to acquire a total of 2,056,800 Common Shares were granted during 2006 to eight Executive Officers at a weighted average price of $19.69.

The following table sets out the details of options exercised and the aggregate value realized by the particular Named Executive Officer during 2006 and, in addition, sets out the aggregate number of outstanding exercisable options owned by each of the Named Executive Officers, categorized as being either exercisable or unexercisable as at December 31, 2006, together with the value of such options at the end of the year.

Table 3: Aggregated Option/SAR Exercises During 2006 and Option Values

Name	Common Shares Acquired/Options Surrendered on Exercise[1]	Aggregate Value Realized[2] ($)	Unexercised Options at December 31, 2006 (#)		Value of Unexercised In-the-Money Options at December 31, 2006[3] ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
James W. Buckee	219,000	4,013,938	2,550,000	2,577,000	35,830,750	16,403,281
Michael D. McDonald	375,000	5,594,925	0	832,500	0	5,594,600
Philip D. Dolan	103,500	1,553,362	112,500	288,900	1,484,812	2,093,005
T. Nigel D. Hares	270,000	4,080,900	675,000	939,000	8,696,475	5,966,845
M. Jacqueline Sheppard	630,000	9,986,500	675,000	910,500	8,696,475	5,866,808
Ronald J. Eckhardt	80,550	1,448,059	538,650	831,000	7,634,739	5,577,415

1 Represents the number of shares acquired on exercise, or the number of options surrendered for cancellation as a result of electing to receive the equivalent value as a cash payment

2 Calculated by subtracting the exercise price of the option from the market price obtained per option exercised, or surrendered for cash payment, on the date of the exercise, and by multiplying that amount by the number of Common Shares under options exercised or surrendered.

3 Calculated by subtracting the exercise price of the option from the closing price per share of the Company's Common Shares on the TSX on December 29, 2006 and by multiplying that amount by the number of Common Shares under options owned. The closing trading price of the Company's Common Shares on the TSX on December 29, 2006 was $19.80

Defined Benefit Pension

The Company provides all of the Named Executive Officers, with the exception of the Vice-President, Finance and Chief Financial Officer, with retirement benefits through two plans, both of which are non-contributory defined benefits plans:

- a registered defined benefit plan called the Talisman Energy Supplementary Pension Plan for Executives (the "Supplementary Pension Plan"), and
- a special pension agreement (the "Special Pension Agreement") funded through a Retirement Compensation Arrangement. The Special Pension Agreement is a non-registered plan which provides pension payments that would otherwise be payable under the Supplementary Pension Plan but which exceed the prescribed maximum allowable under the *Income Tax Act.*

In addition to the Named Executive Officers listed in Table 1, four other Executive Officers participated in the Supplementary Pension Plan and Special Pension Agreement in 2006.

Subject to the 2004 Plan amendment discussed below, the Supplementary Pension Plan and Special Pension Agreement are non-contributory, defined benefit plans which provide for an annual accrual of 2% of the total of Best Average Earnings and Final Average Award. "Best Average Earnings" means the average of the best three years' compensation (actual base pay for the three year period prior to January 1, 2007). "Final Average Award" means the average of the variable pay awarded during the four consecutive years prior to December 31, 2006.

Table 4 shows the estimated annual pension payments for participants in both the Supplementary Pension Plan and Special Pension Agreement. Table 5 shows the portion of the total estimated annual pension payments that are provided through the Supplementary Pension Plan.

Defined Contribution Pension

The Vice-President, Finance and Chief Financial Officer, is provided with a registered Defined Contribution Pension. In addition, he is provided with a non-registered non-contributory savings plan which provides the value of the Company pension contribution that exceeds the prescribed maximum allowable under the *Income Tax Act.* The total employee and employer contributions for both plans during 2006 were $47,950.27.

The Executive Vice-President, North American Operations and the former Executive Vice-President, Finance and Chief Financial Officer have deferred Defined Contribution Pension benefits relating to their service prior to becoming Executive Officers. Both also participated in the non-registered non-contributory savings plan.

Table 4: Annual Pension Payments ($) to Participants in both the Supplementary Pension Plan and the Special Pension Agreement[1]

Remuneration[2]	Years of Service						
	15	20	25	30	35	40	45
$ 450,000	$ 135,000	$ 180,000	$ 225,000	$ 270,000	$ 315,000	$ 360,000	$ 405,000
$ 650,000	$ 195,000	$ 260,000	$ 325,000	$ 390,000	$ 455,000	$ 520,000	$ 585,000
$ 850,000	$ 255,000	$ 340,000	$ 425,000	$ 510,000	$ 595,000	$ 680,000	$ 765,000
$ 1,050,000	$ 315,000	$ 420,000	$ 525,000	$ 630,000	$ 735,000	$ 840,000	$ 945,000
$ 1,250,000	$ 375,000	$ 500,000	$ 625,000	$ 750,000	$ 875,000	$ 1,000,000	$ 1,125,000
$ 1,450,000	$ 435,000	$ 580,000	$ 725,000	$ 870,000	$ 1,015,000	$ 1,160,000	$ 1,305,000
$ 1,650,000	$ 495,000	$ 660,000	$ 825,000	$ 990,000	$ 1,155,000	$ 1,320,000	$ 1,485,000
$ 1,850,000	$ 555,000	$ 740,000	$ 925,000	$ 1,110,000	$ 1,295,000	$ 1,480,000	$ 1,665,000
$ 2,050,000	$ 615,000	$ 820,000	$ 1,025,000	$ 1,230,000	$ 1,435,000	$ 1,640,000	$ 1,845,000
$ 2,250,000	$ 675,000	$ 900,000	$ 1,125,000	$ 1,350,000	$ 1,575,000	$ 1,800,000	$ 2,025,000

1 This table excludes those other calculations indicated in the paragraphs below.
2 Includes Best Average Earnings plus Final Average Award.

Years of service credited in the Supplementary Pension Plan and Special Pension Agreement where applicable, as at December 31, 2006, are as follows: James W. Buckee – 29.58; Michael D. McDonald – 9.0; T. Nigel D. Hares – 12.33; M. Jacqueline Sheppard – 13.33; and Ronald J. Eckhardt – 3.25. Years of service credited on normal retirement at age 65 would be as follows: James W. Buckee – 33.92; Michael D. McDonald – 18.75; T. Nigel D. Hares – 21.33; M. Jacqueline Sheppard – 27.42; and Ronald J. Eckhardt – 16.42.

James W. Buckee's pension payable from the Supplementary Pension Plan and Special Pension Agreement will be reduced by the pension formula applicable to and an amount payable by a previous employer for the period May 1977 to June 1992. Michael D. McDonald has been granted a pension enhancement recognizing the difference between Employee and Supplemental Pension Plan benefits for the period prior to his enrollment in the Supplementary Pension Plan in January 1998. Pensions payable are in the form of a life annuity, with a 60% survivor benefit provided to the surviving spouse in the event of death of the Named Executive Officer. The benefits listed above are not subject to any offsets such as Canada Pension Plan or Old Age Security.

In 2004, the Company changed the pension accrual rate of the Special Pension Agreement to provide greater flexibility in recognizing and recruiting executives with senior industry experience. The formula will now provide a pension accrual from the date of participation in the Supplementary Pension Plan (the "Executive Plan") at a rate of 4% per year for all credited service to the earlier of seven years of participation in the Supplementary Pension Plan or 14 years of Company service. For credited service after the earlier of seven years in the Supplementary Pension Plan or 14 years of Company service, pension is accrued at a rate of 2% per year. This change is retroactive to August 1, 1993 and, of the Named Executive Officers, affects M. Jacqueline Sheppard (additional 2% for seven years), and T. Nigel D. Hares (additional 2% for seven years).

Table 5: Annual Pension Payments to Participants from the Supplementary Pension Plan

Remuneration[1]	Years of Service						
	15	20	25	30	35	40	45
$450,000 – $2,250,000	31,665	42,200	52,775	63,330	73,885	84,440	94,995

1 Includes Best Average Earnings plus Final Average Award.

Table 6: Supplemental Pension Disclosure

	Accrued Pension Obligation Change During the Year				
Name[1]	At December 31, 2005 ($)	Service, Compensation, Interest, Assumption Changes & Experience[2] ($)	At December 31, 2006 ($)	Projected Annual Pension at Normal Retirement Age ($)	Years of Credited Service as at December 31, 2006 (#)
James W. Buckee	18,691,300	3,913,000[2]	22,604,300	1,429,500	29.58
Michael D. McDonald	2,262,500	355,500	2,618,000	330,700	9.0
T. Nigel D. Hares	4,993,900	286,600	5,280,500	502,100	12.33
M. Jacqueline Sheppard	4,803,300	484,600	5,287,900	618,900	13.33
Ronald J. Eckhardt	1,021,600	321,500	1,343,100	314,200	3.25

1 Philip D. Dolan does not participate in the Supplementary Pension Plan. Refer to the Defined Contribution Pension section above.

2 Includes interest on Accrued Pension Obligations at December 31, 2005. In addition, 2006 variable pay exceeded estimates used in the actuarial valuation and certain changes in actuarial assumptions.

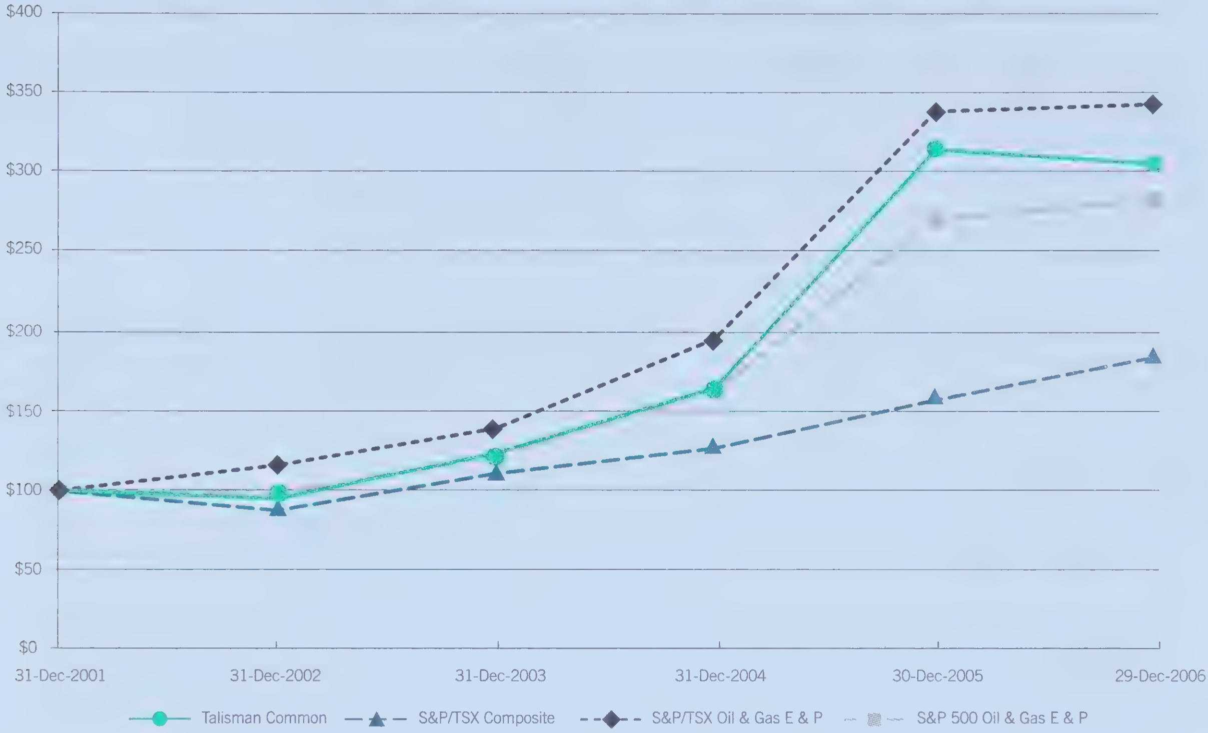
Employment Contracts and Termination of Employment Arrangements

At December 31, 2006, the Company had employment contracts in place for all Executive Officers of the Company. The employment contract with the President and Chief Executive Officer provides for two and one half years' compensation (including base salary plus target variable pay, plus benefits) in the event of a change in control of the Company. The contracts for other Executive Officers provide for the payment of two years' compensation (including base salary plus target variable pay, plus benefits) in the event of a change in control of the Company.

The employment contract also allows for the full vesting of all unvested options for all optionees in the event of a change in control.

Performance Graph

The following graph shows the performance of Common Shares compared to the S&P/TSX Composite, the S&P/TSX Oil and Gas Exploration and Production and the S&P 500 Oil and Gas Exploration and Production indices for the period December 31, 2001 to December 29, 2006.



	At December 31[1]						Average Annual
$100 Investment in Base Period	2001	2002	2003	2004	2005	2006	Return
Talisman Common Shares[2]	100.00	94.88	123.97	165.25	316.71	307.74	25.2%
S&P/TSX Composite Total Return Index	100.00	87.56	110.96	127.03	157.68	184.89	13.1%
S&P/TSX Oil and Gas E & P Total Return Index	100.00	116.17	139.58	196.35	340.96	345.47	28.1%
S&P 500 Oil and Gas E & P Total Return Index[3]	100.00	98.53	121.62	163.77	272.14	284.76	23.3%

1 Or last business day of the year.
2 Assumes dividends are reinvested.
3 In US funds, as published by S&P.

Remuneration of Directors

In 2006, the Board of Directors considered and approved a new compensation structure for non-employee directors. For the year ended December 31, 2006, each non-employee director of the Company was remunerated according to the fee schedule provided below.

Director Fee Schedule for Year-Ended December 31, 2006

Non-Executive Chairman of the Board Annual Retainer[1]	$330,000
Annual Director Retainer	$110,000
Board Meeting Fee	$1,700 ($800 for teleconference)
Committee Chair Retainer	$9,000 (in addition to Committee Member Retainer)
Committee Member Retainer	$6,000
Committee Attendance Fee	$1,700 ($800 for teleconference)

1 The Chairman's annual retainer is an all-inclusive retainer. No additional fees are paid for attendance at Board or Board committee meetings, or for service on other Talisman related matters.

The Company adopted a Deferred Share Unit Plan for non-employee directors (the "DSU Plan") effective January 1, 2001. Under the DSU Plan, non-employee directors of the Company may elect, on an annual basis and in addition to their mandatory allocations, to receive all or part of their cash compensation in the form of DSUs. The DSU Plan enhances the alignment of director and shareholder interests in that the value of the units directly tracks the performance of the Common Shares. Under the DSU Plan, DSUs are allocated to a notional account on a quarterly basis by dividing the amount of compensation that the director has elected to receive in DSUs by the market value of the Company's Common Shares. A participant in the DSU Plan is not entitled to the benefit of the value of his or her DSU Plan account until such time as the participant ceases to be a director of the Company. No shares are issued under this plan. The DSU Plan was modified in 2006 to allow for the separate granting of DSUs (which are exclusive of the DSUs granted to Directors in lieu of Board Retainer Fees and/or Attendance and Committee Fees). On May 1, 2006, the Board granted 40,000 DSUs to the Chairman of the Board, and 30,000 DSUs to each Director. The value of DSUs was calculated based on the mean of the high and low reported price at which Shares were traded on The Toronto Stock Exchange on the day preceding the grant date.

Non-executive directors are eligible to participate in the Director Stock Option Plan (the "DSOP"), implemented in 1998. Between 1993 and 1998, directors were eligible to participate in the ESOP. The DSOP was amended in 2003 to include the cash payment feature, described under the Compensation Program Design section, on all existing and future options. Options are fully vested after three years and expire if not exercised within ten years of issuance. No stock options have been granted to non-executive directors since 2003. As a result of the new compensation structure for non-executive directors described above, the Company does not currently intend to grant further stock options under this plan.

In May 2005, the existing director share ownership policy was further strengthened, requiring directors to own a minimum number of Common Shares and/or DSUs within five years of the effective date of the policy or for new non-executive directors, within five years of being elected to the Board. The number of Common Shares or DSUs to be owned is linked to a multiple of the annual retainer received by a director. See "Director Share Ownership Policy" in Schedule A to this Circular.

In addition, directors are reimbursed for their Company-related travel expenses. The Director who is a full-time salaried employee of the Company received no remuneration for serving as a director of the Company.

Individual Compensation Paid to Non-Executive Directors in Fiscal 2006[1]

Name	Basic Retainer[2] ($)	Committee Chair Retainer ($)	Committee Member Retainers ($)	Board Attendance Fees ($)	Committee Attendance Fees ($)	Total Fees Paid in Cash ($)	Total Fees Credited in DSUs ($)	Equity Grant DSUs (#)
Douglas D. Baldwin	330,000	–	–	–	–	–	330,000	40,000
William R.P. Dalton	110,000	–	7,747	9,300	11,900	94,947	44,000	30,000
Kevin S. Dunne	110,000	5,810	18,000	9,300	17,000	116,110	44,000	30,000
Lawrence G. Tapp	110,000	9,000	12,000	7,500	15,800	99,300	55,000	30,000
Stella M. Thompson	110,000	9,000	18,000	9,300	17,700	109,000	55,000	30,000
Robert G. Welty	110,000	9,000	12,000	9,300	15,300	77,800	77,800	30,000
Charles R. Williamson	91,667[3]	–	7,747	9,300	14,400	10,867	112,247	30,000
Charles W. Wilson	110,000	9,000	18,000	9,300	14,300	116,600	44,000	30,000

1 Dollar values for directors resident in the United States are in US denominations. All other dollar values indicate Canadian denominations.
2 A minimum of 40% of a director's annual retainer must be taken in the form of DSUs. They may elect to receive up to 100% in DSUs. See "Director Share Ownership Policy."
3 Mr. Williamson was appointed to the Board on March 1, 2006.

Securities Authorized for Issuance Under Equity Compensation Plans

The Company has an Employee Stock Option Plan (the "ESOP") and a Director Stock Option Plan (the "DSOP") pursuant to which it has granted options to purchase Common Shares of the Company. The Company intends to continue to grant options under the ESOP, but does not currently intend to grant any further options under the DSOP. The ESOP and DSOP (collectively the "Option Plans") are the only equity compensation plans that provide for the issuance of shares of the Company and both have been approved by the shareholders.

The following table provides information as at December 31, 2006 and March 1, 2007, with respect to Common Shares authorized for issuance under the Option Plans.

Plan Category	Number of Common Shares to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options (b)	Number of Common Shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))[1] (c)
Equity compensation plans approved by securityholders	63,921,148 (Dec. 31) 61,093,379 (March 1)	$10.79 (Dec. 31) $10.97 (March 1)	47,501,367 (Dec. 31) 50,229,536 (March 1)
Equity compensation plans not approved by securityholders	–	–	–
Total	63,921,148 (Dec. 31) 61,093,379 (March 1)	$10.79 (Dec. 31) $10.97 (March 1)	47,501,367 (Dec. 31) 50,229,536 (March 1)

1 Includes 6,552,000 Common Shares remaining available at December 31, 2006 under the DSOP, in respect of which the Company does not currently intend to grant any further options.

Employee Stock Option Plan (ESOP)

The purpose of the ESOP is to promote the interests, growth and development of the Company by providing employees with the opportunity to acquire an increased proprietary interest in the Company. The granting of options only has value to the extent that additional shareholder value is created over time. Options are viewed as an important aspect of total compensation for employees, serving to align their interest with those of the shareholders. Option grants increase with the employee's level in the Company.

As at December 31, 2006, there were 63,543,148 Common Shares, representing 6% of the Company's issued and outstanding Common Shares, subject to outstanding options under the ESOP, and 40,949,367 Common Shares, representing 3.8% of the Company's issued and outstanding Common Shares, remaining available for issuance under the ESOP. (There were 60,715,379 Common Shares representing 5.8% of the Company's issued and outstanding Common Shares, subject to outstanding options under the ESOP, and 43,677,536 Common Shares, representing 4.2% of the Company's issued and outstanding Common Shares, remaining available for issuance under the ESOP as at March 1, 2007). The number of Common Shares subject to option in favour of any one employee shall not exceed 5% of the total number of Common Shares outstanding at the time of adoption of the ESOP.

The Board has delegated to the Management Succession and Compensation Committee (the "Committee") the authority to grant options pursuant to the ESOP.

The Committee may designate any full-time employee of the Company (or any of its subsidiaries) as individuals who are eligible to receive option awards under the ESOP. The vesting period of options is set at the Committee's discretion but options generally vest after three years, subject to early vesting provision in the event of a change of control or upon an employee becoming eligible to retire or death. The term of an option, while set at the Committee's discretion, shall not extend for a period of more than ten years from the date upon which it is granted. The strike price of an option is set by the Committee but must not be less than the mean of the high and low reported prices at which Common Shares were traded on the TSX on the last business day before the date on which such option is granted or, if no trade is reported on that day, not less than the mean of the bid and ask quotations on the TSX for the Common Shares at the close of business on that day.

In determining such eligible individuals and the number of Common Shares to be covered by an option, the Committee considers the length of service of each employee and the duties, remuneration and present and potential contribution to the success of the Company of each employee. Options are not transferable and all options must be exercised only by the optionholder, or after his or her death, only by his or her legal representative.

All options include a cash payment feature which provides the optionholder the right to surrender the exercisable option for cancellation in return for a cash payment from the Company. The cash payment is based on the number of options cancelled, multiplied by the amount by which the market price of the Common Shares at the time of surrender exceeds the strike price of the option. The inclusion of the cash payment feature enables the

Company to provide similar benefits to optionholders without increasing the outstanding Common Shares, to the extent that optionholders utilize this feature. The Common Shares subject to any option that is surrendered pursuant to the cash payment feature are available for future options granted under the ESOP, as is the case for options which expire or are cancelled without having been exercised.

In addition, under the terms of the Company's standard employee stock option agreement, options expire on the earlier of the expiry date and 24 months after an employee's retirement. Upon resignation, options are terminated on the earlier of the expiry date and the close of business on the last business day of work. In the event employment is terminated with cause, options are terminated on the earlier of the expiry date or on the fifth business day after termination. In the event employment is terminated without cause, unvested options that vest within the notice period will vest on the vest date and will expire on the earlier of the expiry date and that date which is six months after the vest date. Vested options will expire on the earlier of the expiry date or six months following the date that the Company gives notice of termination.

The Board may, without shareholder approval, from time to time alter or amend the ESOP provided that the maximum aggregate number of Common Shares that may be optioned or issued shall not increase (other than from adjustments due to subdivision, consolidation or reclassification of the Common Shares) and the manner of determining the strike price shall not be altered.

Director Stock Option Plan (DSOP)

The provisions of the DSOP are substantially similar to the ESOP described above. As at December 31, 2006, there were 378,000 Common Shares, representing 0.04% of the Company's issued and outstanding Common Shares, subject to outstanding options under the DSOP. (There were 378,000 Common Shares, representing 0.04% of the Company's issued and outstanding Common Shares, subject to outstanding options under the DSOP as at March 1, 2007). As noted above, although there are 6,552,000 Common Shares remaining available for issuance pursuant to the DSOP, the Company does not intend to grant any further options under the DSOP as a result of a restructuring of directors' compensation in 2004.

Indebtedness of Directors and Officers

No director, proposed nominee for director, officer (nor associates of these individuals), employee, or former director, officer or employee of the Company or any of its subsidiaries is currently indebted to the Company.

Interests of Informed Persons in Material Transactions

The Company is not aware of any material interests, direct or indirect, of any "informed person" of the Company, any proposed director of the Company, or any associate or affiliate of any informed person or proposed director, in any transaction since January 1, 2006, or in any proposed transaction which has materially affected or would materially affect the Company or any of its subsidiaries.

For the purposes of the determination above, "informed person" means: (a) a director or executive officer of the Company; (b) a director or executive officer of a company that is itself an informed person or subsidiary of the Company; (c) any person or company who beneficially owns, directly or indirectly, voting securities of the Company or who exercises control or direction over voting securities of the Company, or a combination of both, carrying more than 10% of the voting rights attached to all outstanding voting securities of the Company other than voting securities held by the person or company as underwriter in the course of a distribution; and (d) the Company after it has purchased, redeemed or otherwise acquired any of its securities, for so long as it holds any of its securities.

The Company complies with the conflict of interest requirements of the *Canada Business Corporations Act* on an ongoing basis. Directors and officers are required to disclose to the Company, in writing or by requesting to have it entered into the minutes of meetings of directors or of meetings of committees of directors, the nature and extent of any interest that they have in a material contract or material transaction, whether made or proposed, with the Company, under certain elaborated circumstances. Directors and officers are reminded at least annually of their ongoing statutory requirement to declare their interests in a material contract or a material transaction. The Chairman may, as a result of any disclosures made, require an affected director to abstain from a vote on the relevant matter in accordance with the statutory requirements. In addition, directors must comply with the conflict of interest provisions of the Company's Policy on Business Conduct and Ethics.

Statement of Corporate Governance Practices

The Company's Statement of Corporate Governance Practices is set out in Schedule A to this Circular.

Audit Committee Information

Additional disclosure regarding the Audit Committee (including, but not limited to the full text of the Audit Committee Charter, a description of Audit Committee members' education and experience, and a summary of external auditor service fees), is contained in Schedule C to the Company's Annual Information Form for the year ended December 31, 2006.

Shareholder Proposals

A shareholder intending to submit a proposal at an annual meeting must comply with applicable provisions of the *Canada Business Corporations Act*. The Company will include a shareholder proposal in the management's proxy circular prepared in connection with the annual meeting of shareholders in 2008 provided that such a proposal is received by the Corporate Secretary in the Company's principal executive office on or before December 12, 2007 and provided that such a proposal is required to be included in the Company's management proxy circular pursuant to the applicable terms of the *Canada Business Corporations Act*.

Directors' and Officers' Liability Insurance

The Company carries directors' and officers' liability insurance to a maximum of US$50,000,000 per claim, subject to an aggregate annual limit of US$50,000,000 for all directors and officers. This policy covers all directors and officers and various senior managers of the Company and its subsidiaries. There is no deductible applicable to the policy. The premium payable by the Company for the year January 1, 2007 to January 1, 2008 is US$425,750. No directors, officers or managers will pay any portion of the premium.

Additional Information

Information related to the Company is available on SEDAR at www.sedar.com. Financial information for the fiscal year ended December 31, 2006 is provided in the Company's comparative audited consolidated financial statements and annual management's discussion and analysis ("MD&A").

Copies of this Circular, the Annual Financial Report which contains the comparative audited consolidated financial statements of the Company and the annual MD&A, any interim financial statements of the Company subsequent to those statements contained in the Annual Financial Report, and the Company's Annual Information Form for the fiscal year ended December 31, 2006 as filed with Canadian securities commissions and with the United States Securities and Exchange Commission under Form 40-F, may be obtained without charge by contacting the Investor Relations and Corporate Communications Department, Talisman Energy Inc., Suite 3400, 888 Third Street S.W., Calgary, Alberta, T2P 5C5, or by e-mail at tlm@talisman-energy.com.

Directors' Approval

The contents and the sending of this Circular have been approved by the directors of the Company.

M. Jacqueline Sheppard
Corporate Secretary

March 13, 2007

Schedule A – Statement of Corporate Governance Practices

Highlights of 2006 Governance Efforts

The Company has a solid governance framework and continually reviews opportunities to further enhance its corporate governance practices. In addition to routine governance matters that are reviewed by the Board of Directors and its committees at all regularly scheduled meetings, the following is a list of the Company's ongoing governance efforts in 2006:

- All directors (including two directors elected for the first time), except the President and Chief Executive Officer, were determined to be independent in accordance with applicable securities legislation.
- All members of the Audit, Governance and Nominating, Management Succession and Compensation and Reserves Committees were determined to be independent in accordance with applicable securities legislation.
- All directors and executive officers met the Company's internal share ownership guidelines.
- Shareholders were again given the opportunity to vote for individual directors.
- Evaluations of the Board, Board Committees and individual directors (including separate evaluations of directors serving as chairman of a Committee or the Board) were completed. The assessment forms used to complete Board, Board Committee and individual director evaluations were updated.
- The Board considered its Board Succession Policy in detail, including retirement age and term limits for directors as well as the appropriate size of the Board. To assist in ongoing succession efforts, the Board reviewed an updated profile of current directors, skills and qualifications, and identified preferred characteristics for future Board candidates.
- Best practices in executive compensation disclosure were formally considered in a joint review by the Governance and Nominating Committee and the Management Succession and Compensation Committee, resulting in additional disclosure. See "Compensation of Directors and Executive Officers" herein.
- Procedures for the evaluation of disclosure controls and processes were enhanced.
- Talisman's Director Deferred Share Unit Plan was amended to provide for separate grants of deferred share units. No increase to the cash component of directors' compensation was approved in 2006; Board members were granted deferred share units in lieu of an increase to their annual retainer to further align Board interests with the long term goals of the Company.
- The Pension Funds Committee conducted a comprehensive review of Talisman's pension governance structures. The terms of reference for each of the Management Succession and Compensation Committee and the Pension Funds Committee were updated as part of this review.
- Management evaluated a comprehensive risk assessment model for legal and ethics compliance matters. The Governance and Nominating Committee provided initial direction on this continuous improvement process.
- A steering committee was formed in order to review the processes used to produce Talisman's annual disclosure documents. The steering committee's key recommendations were implemented.

Overview

The Company's corporate governance practices satisfy all the existing guidelines for effective corporate governance established by National Instrument 58-101 and National Policy 58-201 (collectively, the "CSA Rules"), all of the New York Stock Exchange ("NYSE") corporate governance listing standards applicable to non-U.S. companies and substantially all of the NYSE corporate governance listing standards applicable to U.S. companies.

With respect to the NYSE corporate governance listing standards, the Company's corporate governance practices differ in only three respects from those applicable to U.S. companies. First, the NYSE listing standards require shareholder approval of all equity compensation plans and any material revisions to such plans, regardless of whether the securities to be delivered under such plans are newly issued or purchased on the open market, subject to a few limited exceptions. In contrast, the TSX rules require shareholder approval of equity compensation plans only when such plans involve newly issued securities. Equity compensation plans that do not provide for a fixed maximum number of securities to be issued must have a rolling maximum number of securities to be issued based on a fixed percentage of the issuer's outstanding securities and must also be approved by shareholders every three years. If the plan provides a procedure for its amendment, the TSX rules require shareholder approval of amendments only where the amendment involves a reduction in the exercise price or an extension of the term of options held by insiders. Secondly, the NYSE listing standards require that any waivers of a company's code of business conduct and ethics for directors or executive officers be promptly disclosed. The

Company complies with the requirements of the CSA Rules which specify that material departures from the Policy on Business Conduct and Ethics by a director or executive officer which constitute a material change to the Company will be promptly disclosed to shareholders. Finally, the NYSE listing standards require that the Audit Committee charter specify that the Audit Committee assist the Board of Directors in its oversight of the Company's compliance with legal and regulatory requirements. The Company's Board oversees the Company's compliance with legal and regulatory requirements and this responsibility specifically forms part of the Board's Terms of Reference. Each of the Board committees assists the Board in its oversight of the Company's compliance with legal and regulatory requirements in each of their areas of responsibility.

Summaries of the mandates of the Board, its committees (including position descriptions for the Chair of each committee), the Chairman and the Chief Executive Officer may be obtained from the Company website at www.talisman-energy.com or upon request from: Investor and Corporate Communications Department, Talisman Energy Inc., Suite 3400, 888 Third Street S.W., Calgary, Alberta, T2P 5C5, e-mail: tlm@talisman-energy.com. The Terms of Reference for the Board are reproduced in their entirety in this Schedule. In addition, the Terms of Reference for the Audit Committee are reproduced in their entirety in Schedule C to the Company's Annual Information Form for the year ended December 31, 2006.

Independence of the Board

The CSA Rules state that a board should have a majority of independent directors. An independent director is defined as an individual who has no direct or indirect material relationship with the Company (that is, a relationship which could, in the view of the Company's Board of Directors, be reasonably expected to interfere with the exercise of a director's independent judgment). From January to May, 2006, the Board of Talisman was comprised of 11 directors, 10 of whom, including the Chairman of the Board, qualified as independent directors as defined by the CSA Rules and Multilateral Instrument 52-110. From May to December 2006, the Board of Directors of Talisman was comprised of nine directors, eight of whom, including the Chairman of the Board, qualified as independent directors as defined by the CSA Rules and Multilateral Instrument 52-110. The only related director is James W. Buckee, President and Chief Executive Officer of the Company. The Board has therefore determined that in accordance with the CSA Rules, eight of the nine current directors have no direct or indirect material relationship with the Company and that the Company is in compliance with the majority independent requirement of the CSA Rules.

In accordance with a New York Stock Exchange rule that listed companies must have a majority of independent directors, the Board has determined that none of the eight unrelated directors has any material relationship with the Company (other than serving as a director of the Company). Therefore, the Board has determined that all eight unrelated directors (being Douglas D. Baldwin, William R. P. Dalton, Kevin S. Dunne, Lawrence G. Tapp, Stella M. Thompson, Robert G. Welty, Charles R. Williamson and Charles W. Wilson) are independent as defined by the rules of the New York Stock Exchange. William R.P. Dalton, Charles R. Williamson and Chuck Wilson have relationships with the Company through their directorships or shareholdings with the HSBC group of companies in the case of Mr. Dalton, Unocal Corporation (now Chevron Corporation ("Chevron") and Weyerhaeuser Inc. ("Weyerhaeuser") in the case of Mr. Williamson and Akita Drilling Ltd. ("Akita") in the case of Mr. Wilson. Talisman has ordinary course business dealings with each of HSBC, Chevron, Weyerhaeuser and Akita. The Board of Directors determined that neither Mr. Dalton's nor Mr. Williamson's relationship with Talisman is material on account of the aforementioned relationships, principally on the grounds that (i) the relationships Talisman has with each of HSBC, Chevron and Weyerhaeuser were entered into on terms substantially similar to those that would be offered to comparable counterparties in similar circumstances; and (ii) the termination of a relationship with HSBC, Chevron or Weyerhaeuser in the normal course of business would not reasonably be expected to have a material and adverse effect on the financial condition, results of operations or business of HSBC, Chevron or Weyerhaeuser. In other words, the personal interests of these directors are not linked to Talisman's successes through the entities listed above. In addition, the Board has determined that Talisman's relationship to Akita might be material to Akita; however, the Board has determined that Mr. Wilson's relationship with Talisman is not material on account of the aforementioned relationships, principally on the grounds that: (i) the relationship that Talisman has with Akita was entered into on terms substantially similar to those that would be offered to comparable counterparties in similar circumstances; and (ii) Mr. Wilson's personal economic exposure to Akita is not material to him. Accordingly, Talisman's relationship with each of HSBC, Chevron or Weyerhaeuser and Akita does not compromise Mr. Dalton's, Mr. Williamson's or Mr. Wilson's independence, as applicable.

The composition of the Board, including the independence of the Chairman and his specified role, ensures that the Board has in place appropriate structures and procedures to ensure that the Board can function independently of management. All committees of the Board of Directors are composed entirely of unrelated, independent directors with the exception of the Executive Committee and the Pension Funds Committee, the majority of whose members are unrelated and independent.

The results of the independence determinations made by the Board of Directors follow in tabular form:

Name of Director	Independent (I)/ Non-Independent (NI)	Committee Memberships
Douglas D. Baldwin	I	Executive, Governance and Nominating, Management Succession and Compensation, Reserves
James W. Buckee	NI	Executive, Pension
William R.P. Dalton	I	Audit, Pension
Kevin S. Dunne	I	Governance and Nominating, Pension, Reserves
Lawrence G. Tapp	I	Audit, Management Succession and Compensation
Stella M. Thompson	I	Executive, Management Succession and Compensation, Pension
Robert G. Welty	I	Audit, Governance and Nominating
Charles R. Williamson	I	Management Succession and Compensation, Governance and Nominating
Charles W. Wilson	I	Audit, Executive, Reserves

The Company's Board of Directors has adopted a policy regarding Board succession (the "Board Succession Policy"). The policy states that an independent director should offer to resign if he or she has ceased to be independent. Board members are also required to advise the Chairman of the Governance and Nominating Committee where there is a significant change in the member's personal status including a negative change in public profile, or significant changes in employment or health. Upon receipt of any such notification, the Governance and Nominating Committee will consider the member's change in status in light of the Company's recruitment criteria and Board succession plans and, depending on the results of those deliberations, may request the member's resignation from the Board of Directors. The Board of Directors considered the Board Succession Policy in detail in 2006. See "Board Succession" herein.

Other Directorships

Certain directors of the Company serve as directors of other reporting issuers. Disclosure of these directorships, as well as non-public directorships which require a significant portion of a director's time, is contained in the Circular under the heading "Election of Directors". As at March 1, 2007, there were no interlocking relationships between directors of the Company.

The Company's Governance and Nominating Committee monitors the amount of other board memberships for current and proposed directors on an ongoing basis to ensure the ability of all directors to effectively act in the best interests of the Company.

Orientation and Continuing Education

The Company has an orientation and development program for its Board. An orientation manual, which is updated for existing directors on a regular basis, is provided to new Board members who are expected to review and become familiar with its contents. In addition, the Company conducts an orientation session with each new director to review the Company's business, expectations of directors, current issues and opportunities and corporate goals and objectives. The Company also provides directors with opportunities to increase their knowledge and understanding of the Company's business. The Board visits one of the Company's international locations, major domestic facilities or operating areas on an annual basis. Briefings on strategic issues are completed on an ongoing basis but specifically at an annual strategy session, and typically include reviews of the competitive environment, the Company's performance relative to its peers, and any other developments that could materially affect the Company's business. The Board is also briefed on a regular basis on corporate governance developments and emerging best practices in corporate governance. In 2006, the orientation and continuing education activities of the Board and its members included the following:

- a new director orientation session on governance and Corporate Secretary matters;
- a full day new director orientation session on the Company's business and operations;
- a global exploration open house for all directors, executive and senior management, which included discussions with technical staff; and
- presentations from two third-party experts on the geopolitics of energy and the macro economic environment focusing on the drivers of energy demand, respectively, to coincide with a Board meeting held in Ottawa, Ontario.

In addition, all Committees regularly receive informational papers on topics related to the particular Committee mandate as part of their Board and Board Committee mailings.

Summary of Meetings Held, Attendance Record

During 2006, six Board meetings were held, one of which was called as a special meeting.

In-camera sessions comprising only independent directors are required at each Board meeting and the Roles and Responsibilities of the Chairman of the Board contemplate that the holding of such meetings is a duty of the Chairman. During the year ended December 31, 2006, the Board held three in-camera sessions. In addition to these regularly scheduled in-camera sessions, the independent members of the Board conducted more comprehensive in-camera sessions for specific items including strategy, management structure and succession planning. In addition, separate in-camera sessions were conducted by the Reserves Committee with the Company's Internal Qualified Reserves Evaluator and by the Audit Committee with both the external auditor and internal auditors. The Chairman maintains regular contact with Board members regarding issues to come before the Board, and solicits views on matters considered important to the function of the Board.

The attendance record of each director during the 12 month period ended December 31, 2006 is as follows:

Name	Board Meetings Attended		Committee Meetings Attended	
Douglas D. Baldwin	6 of 6	100%	Executive	100%
			Governance and Nominating	100%
			Management Succession and Compensation	100%
			Reserves	100%
James W. Buckee	6 of 6	100%	Executive	100%
			Pension	100%
William R.P. Dalton[1]	6 of 6	100%	Audit	100%
			Pension	100%
Kevin S. Dunne	6 of 6	100%	Governance and Nominating	100%
			Pension	100%
			Reserves	100%
Lawrence G. Tapp[2]	6 of 6	100%	Audit	100%
			Management Succession and Compensation	100%
			Governance and Nominating	100%
Stella M. Thompson	6 of 6	100%	Executive	50%[3]
			Management Succession and Compensation	100%
			Pension	100%
Robert G. Welty	6 of 6	100%	Audit	100%
			Governance and Nominating	100%
Charles R. Williamson[4]	6 of 6	100%	Management Succession and Compensation	100%
			Governance and Nominating	100%
Charles W. Wilson	6 of 6	100%	Audit	100%
			Executive	100%
			Reserves	100%

1 Mr. Dalton was appointed to the Pension Funds Committee on May 9, 2006. His attendance reflects all Pension Funds Committee meetings that were held since his appointment.
2 Mr. Tapp was appointed to the Audit Committee and resigned from the Governance and Nominating Committee on May 9, 2006. His attendance reflects all Board committee meetings that were held since his appointment to the Audit Committee and prior to his resignation from the Governance and Nominating Committee.
3 Ms. Thompson was unable to attend one of two Executive Committee meetings due to short notice of meeting and a scheduling conflict with prior commitments.
4 Mr. Williamson was appointed to the Management Succession and the Compensation Committee and Governance and Nominating Committee on May 9, 2006. His attendance reflects all Board committee meetings that were held since his appointment to the Management Succession and the Compensation Committee and Governance and Nominating Committee.

Board Succession

The Governance and Nominating Committee continued to consider succession planning for Board members in 2006.

In 2004, the Governance and Nominating Committee adopted screening and assessment guidelines to assist in the process of identifying new Board members. To assist in the Company's selection process, the Governance and Nominating Committee also created a profile of ideal characteristics and qualifications of new nominees which takes into account the Company's governance framework and current Board composition. The Company maintains an evergreen list of potential Board members. In 2006, the Governance and Nominating Committee updated its profile of all current directors' experience and qualifications to assist in succession planning. The Governance and Nominating Committee also reviewed the Board Succession Policy in detail, and considered it against various governance principles including mandatory retirement ages and term limits for directors. The Board approved a waiver, until May 2008, of the retirement age of 70 contained in the Board Succession Policy in favour of Douglas D. Baldwin,

the Chairman of the Board. In light of the strong performance and attributes of the Chairman of the Board to date, and recent Board and management changes, the Board determined that it would be in the best interests of the Corporation to make a two year exception to the retirement age for Douglas D. Baldwin. The continued service of Mr. Baldwin as a director and Chairman of the Board is subject to shareholder approval at each annual general meeting of shareholders of the Corporation.

The Governance and Nominating Committee's director succession planning is an ongoing exercise. An external consultant has also been retained to assist in succession planning for the Chairman of the Board and directors.

Terms of Reference

In 2006, the terms of reference of each of the Management Succession and Compensation Committees and the Pension Funds Committees were updated following a review of Talisman's pension governance structures. Each Board Committee is asked on an annual basis to consider whether changes to its Terms of Reference are required. All changes to Terms of Reference are reviewed by the Governance and Nominating Committee before recommendations are made to the Board.

Responsibilities of the Board

The Board of Directors of the Company sees its principal role as stewardship of the Company and its fundamental objective as the creation of shareholder value, including the protection and enhancement of the value of the Company's assets. The Board's stewardship responsibility means that it oversees the conduct of the business and management, which is responsible for developing long-term strategy and conducting the Company's day-to-day business. In addition to strategy discussions at regularly scheduled Board meetings, the Board meets at an extended annual Board session to specifically review and approve corporate strategy.

The Board assesses and ensures systems are in place to manage the risks of the Company's business with the objective of preserving the Company's assets. The Board, through the Chief Executive Officer, sets the attitude and disposition of the Company towards compliance with applicable laws, environmental, safety and health policies, financial practices and reporting. In addition to its primary accountability to shareholders, the Board is also accountable to employees, government authorities, other stakeholders and the public.

<table>
<tr><td>Terms of Reference
Primary Responsibilities</td><td>In fulfilling its primary responsibilities, the Board ensures that the Company has:
▶ established long-term goals and a strategic planning process, identified and has an understanding of the principal risks of the Company's business and implemented appropriate systems to monitor and manage those risks;
▶ established processes to manage and measure management's, and in particular, the Chief Executive Officer's performance in achieving the Company's stated objectives, including appropriate training, monitoring, development and succession planning of management;
▶ established internal controls and management systems to effectively monitor the Company's operations and ensure compliance with applicable laws, regulations and policies;
▶ implemented processes to properly oversee Company sponsored pension plans; and
▶ adopted a communications program for effectively communicating with and receiving feedback from shareholders, employees, government authorities, other stakeholders and the public.
The Board is also required to:
▶ satisfy itself as to the business and professional integrity of the Chief Executive Officer and other executive officers, as well as the Chief Executive Officer and the executive officers' creation of a culture of integrity through the Company;
▶ develop the Company's approach to corporate governance, the review of which is led by the Governance and Nominating Committee of the Board; and
▶ monitor compliance with the Company's Policy on Business Conduct and Ethics.</td></tr>
<tr><td>Other Expectations</td><td>Expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials, are included in the Terms of Reference for the Board and are also communicated in orientation sessions for new Board members.</td></tr>
<tr><td>Non-Delegable Responsibilities</td><td>The Board of Directors may delegate authority over certain matters to a committee of the Board, provided that certain responsibilities of the Board are sufficiently important to warrant the attention of the full Board and, accordingly, are not delegated or are only delegated in a qualified or partial manner, including:
▶ submitting to shareholders any matter requiring their approval;
▶ filling vacancies among the directors or in the office of external auditor or appointing additional directors;
▶ issuing securities, declaring dividends or repurchasing the Company's own shares;
▶ approving management proxy circulars;
▶ approving annual financial statements;
▶ approving the annual statement of reserves data and other oil and gas information and reports thereon; and
▶ adopting, amending or repealing by-laws.</td></tr>
</table>

The Board of Directors has developed Terms of Reference for the Board embodying the foregoing which are reproduced in their entirety at the end of this Schedule. To assist Board members in performing their responsibilities, the Company has adopted a policy whereby, with the approval of the Chairman of the Governance and Nominating Committee or the Board, a Board member may engage an outside advisor at the Company's expense.

Committees of the Board

The Board of Directors has established six committees: the Audit Committee, the Executive Committee, the Governance and Nominating Committee, the Management Succession and Compensation Committee, the Pension Funds Committee and the Reserves Committee. All committees are comprised of a majority of unrelated, independent directors. The President and Chief Executive Officer is the only related director on the Board and is a member of the Executive Committee and the Pension Funds Committee. All other committees are composed exclusively of unrelated, independent directors. With the exception of the Executive Committee, for which there are no regularly scheduled meetings, the committees of the Board convene in accordance with an annually developed schedule.

Audit Committee

Terms of Reference

The primary roles and responsibilities of the Audit Committee include:

- reviewing and recommending to the Board for approval, the Company's annual earnings press release, annual financial statements and the related discussion and analysis of management;
- reviewing and approving all interim earnings press releases, the Company's interim financial statements (prior to their publication, filing or delivery to securityholders) and the related discussion and analysis of management;
- reviewing and approving, as prescribed, other financial information;
- recommending to the Board the auditors who will be proposed at the annual shareholders' meeting for appointment as the Company's external auditor for the ensuing year;
- evaluating and ensuring the independence of the Company's auditor;
- reviewing and pre-approving the terms of the annual external audit engagement plan, as well as non-audit services the auditor is to perform;
- reviewing results of external audit activities;
- reviewing the Company's ongoing relationship with its auditor;
- maintaining direct access to the Company's internal auditors and external auditor and meeting separately with each group;
- overseeing the internal audit function of the Company and its relationship with the Company's auditors and management;
- reviewing and assessing regularly:
  (a) the quality and acceptability of accounting policies and financial reporting practices used by the Company;
  (b) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the Company;
  (c) any new or pending developments, in accounting and reporting standards that may affect the Company;
  (d) the key financial estimates and judgments of management that may be material to the financial reporting of the Company;
  (e) policies related to financial disclosure risk assessment and management; and
  (f) responses by management to material information requests from government or regulatory authorities which may have an impact on the financial reporting of the Company;
- reviewing and obtaining reasonable assurance that the Company's internal financial control and information systems are properly designed and effectively implemented to produce accurate, appropriate and timely financial information;
- reviewing insurance coverage of significant business risks;
- receiving a report on the Company's material subsidiaries concerning any material non-routine structures;
- reviewing corporate policies within the scope of its responsibility and monitoring compliance with such policies;
- in respect of matters within the Audit Committee's purview and delegation, assisting the Board in its oversight of the Company's compliance with legal and regulatory requirements;
- directing and supervising the investigation into any matter brought to the Committee's attention within the scope of its duties; and

	▶ reporting to the Board at each regularly scheduled meeting following any Audit Committee meeting. The Audit Committee has the authority to engage independent counsel and other advisers having special competencies, as it determines necessary to carry out its duties, and it determines the appropriate amount of funding the Company is to provide for compensation of such advisors. For additional information on the Audit Committee, please see Schedule C to the Company's Annual Information Form for the year ended December 31, 2006.
Membership	William R.P. Dalton, Lawrence G. Tapp, Robert G. Welty[1], and Charles W. Wilson.
Independence	All members are unrelated, independent directors.
Simultaneous Service	One member of the Audit Committee simultaneously serves on the audit committees of more than three public companies. The Board has determined that such simultaneous service does not impair the ability of this member to effectively serve on the Company's Audit Committee.
Financial Literacy	The Board has also determined that all members of the Audit Committee are "financially literate" as defined in Multilateral Instrument 52-110. An individual is considered financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer's financial statements. The Board has also determined that Robert G. Welty is an "audit committee financial expert" as defined by the listing standards of the New York Stock Exchange and related US securities legislation.

1 Denotes Committee Chair.

The following report of the Audit Committee of the Company shall not be deemed to be "soliciting material" or to be "filed" with the Canadian securities regulators or the U.S. Securities and Exchange Commission ("SEC"), nor shall this report be incorporated by reference into any filing made by the Company under the U.S. Securities Exchange Act of 1933, as amended, or the U.S. Securities Exchange Act of 1934, as amended.

The Audit Committee met with management and the independent auditor to review and discuss the December 31, 2006 financial statements. The Audit Committee also discussed with the independent auditor the matters included in the U.S. Statement on Auditing Standards No. 61 (Communication with Audit Committees). The Audit Committee has also received written disclosures from the independent auditor included in the U.S. Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee discussed with the independent auditor that firm's independence.

Based upon the Audit Committee's review and discussions with management and the independent auditor, and the Audit Committee's review of the representations of management and the independent auditor, the Audit Committee recommended that the Board of Directors approve the audited consolidated financial statements for filing with the Canadian securities regulators and the SEC, and include the audited consolidated financial statements in the Company's annual report to shareholders for the year ended December 31, 2006.

The Audit Committee is committed to compliance with all applicable accounting policies, procedures and related controls. In accordance with the requirements of the U.S. Securities Exchange Act of 1934 and Multilateral Instrument 52-110, the Audit Committee has adopted procedures for (a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

The Audit Committee

Robert G. Welty, Chair
William R.P. Dalton
Lawrence G. Tapp
Charles W. Wilson

Executive Committee

Terms of Reference	The Executive Committee is an extension of the full Board and convenes to take action when it is not practicable to call a meeting of the full Board. Consequently, the Executive Committee has no regularly scheduled meetings. The Executive Committee may exercise, subject to applicable laws, all of the powers and discretions of the full Board, provided that the powers of the Committee do not include those listed previously as warranting the attention of the full Board.
Membership	Douglas D. Baldwin[1], James W. Buckee, Stella M. Thompson, and Charles W. Wilson.
Independence	James W. Buckee is a related, non-independent director. All other members are unrelated, independent directors.

1 Denotes Committee Chair.

Governance and Nominating Committee

Terms of Reference	The primary roles and responsibilities of the Governance and Nominating Committee include: ▶ developing a set of corporate governance principles and guidelines applicable to the Company and reviewing and approving the Company's annual disclosure of corporate governance compliance; ▶ establishing a long-term plan for composition of the Board; ▶ establishing a process for identifying, recruiting and appointing new directors and recommending nominees for election to the Board; ▶ reviewing and recommending the education and orientation program for new Board members; ▶ reviewing periodically the size of the Board to ensure its continued effectiveness; ▶ assessing the effectiveness of, and ensuring there is a succession plan for, the Chairman of the Board; ▶ reviewing and determining director compensation to ensure such compensation properly reflects the responsibilities and risks involved in being a director (this includes, but is not limited to reviewing the purpose of, and recommending grants under, the Deferred Share Unit Plan); ▶ developing written position descriptions for the Chairs of the Committees and the Chairman of the Board; ▶ reviewing the general responsibilities and function of the Board, its committees and the roles of the Chairman of the Board and the Chief Executive Officer; ▶ assessing the needs of the Board in terms of frequency, location and conduct of Board and committee meetings; ▶ in respect of matters within the Governance and Nominating Committee's purview and delegation, assisting the Board in its oversight of the Company's compliance with legal and regulatory compliance; ▶ considering, and when appropriate, granting waivers from the application of the Policy on Business Conduct and Ethics to executive officers and directors. All material waivers shall be promptly disclosed to shareholders in accordance with securities legislation; and ▶ considering requests from individual directors or committees to engage outside advisors.
Membership	Douglas D. Baldwin, Kevin S. Dunne[1], Robert G. Welty and Charles R. Williamson.
Independence	All members are unrelated, independent directors.

1 Denotes Committee Chair.

Management Succession and Compensation Committee

Terms of Reference	The primary roles and responsibilities of the Management Succession and Compensation Committee include: ▶ reviewing succession plans for key management positions within the Company and its subsidiaries; ▶ reviewing and making recommendations to the Board as to the election or appointment of executive officers of the Company; ▶ reviewing management development policies and practices and staffing plans in the Company; ▶ reviewing and recommending to the Board for approval the compensation and benefit policies of the Company and its subsidiaries, the terms and conditions of employee benefit plans, including incentive-compensation plans and equity-based compensation plans; ▶ leading the process for assessing the performance of the Chief Executive Officer; ▶ developing a written position description for the Company's Chief Executive Officer and reviewing the employment agreements and annual performance contracts of the Chief Executive Officer and executive officers; ▶ reviewing and approving the compensation levels of executive officers. In considering the Chief Executive Officer's compensation level, the Committee reviews and approves the corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluates the Chief Executive Officer's performance in light of those goals and objectives, and determines and approves the Chief Executive Officer's compensation level based on this evaluation; ▶ reviewing and approving employee stock option grants in accordance with the terms of the Employee Stock Option Plan; ▶ reviewing human resource strategies and policies; ▶ producing and reviewing the Company's disclosure of executive compensation; and ▶ in respect of matters within the Management Succession and Compensation Committee's purview and delegation, assisting the Board in its oversight of the Company's compliance with legal and regulatory requirements.
Membership	Douglas D. Baldwin, Lawrence G. Tapp[1], Stella M. Thompson and Charles R. Williamson.
Independence	All Members are unrelated, independent directors.

1 Denotes Committee Chair.

Pension Funds Committee

Terms of Reference	The primary roles and responsibilities of the Pension Funds Committee include: ▶ reviewing and approving the investment strategy, risk profile and performance of the plans and approving the asset class allocations of the plans; ▶ establishing and reviewing the statement of investment policies and procedures; ▶ reviewing service, costs and contract compliance by the custodian, investment managers and other service providers; ▶ appointing and terminating, as applicable, actuaries, auditors and custodians/trustees and reviewing costs associated with plan administration; ▶ reviewing and approving annual financial statements of the plans; ▶ reviewing and approving the funding policy; ▶ confirming the timely deduction and remittance of employer and member contributions; ▶ establishing the criteria for evaluating the performance of investment funds and investment managers and determining the funds in which to invest; ▶ ensuring appropriate governance structures are in place and approving significant administration practices; ▶ reviewing and approving actuarial valuations; and ▶ in respect of matters within the Pension Funds Committee's purview and delegation, assisting the Board in its oversight of the Company's compliance with legal and regulatory requirements.
Membership	James W. Buckee, William R. Dalton, Kevin S. Dunne and Stella M. Thompson[1].
Independence	James W. Buckee is a related, non-independent director. All other members are unrelated, independent directors

1 Denotes Committee Chair.

Reserves Committee

Terms of Reference	The primary roles and responsibilities of the Reserves Committee include: ▶ reviewing the Company's procedures relating to the disclosure of information with respect to oil and gas activities; ▶ reviewing the Company's procedures for providing information to the qualified reserves evaluator or auditor who reports on reserves data; ▶ meeting with management and the qualified reserves evaluator or auditor to review the reserves data and the report of the qualified reserves evaluator or auditor and to determine whether any restrictions affect the ability of the qualified reserves evaluator or auditor to report on reserves data without reservation; ▶ reviewing and recommending to the Board for approval the content and filing of the Company's annual statement of reserves data and other oil and gas information; ▶ reviewing and recommending to the Board for approval the filing of the annual report on reserves data by the qualified reserves evaluator or auditor; ▶ reviewing and recommending to the Board for approval the content and filing of the Company's annual report of management and directors on oil and gas disclosure; and ▶ in respect of matters within the Reserves Committee's purview and delegation, assisting the Board in its oversight of the Company's compliance with legal and regulatory requirements.
Membership	Douglas D. Baldwin, Kevin S. Dunne and Charles W. Wilson[1].
Independence	Members are unrelated, independent directors.

1 Denotes Committee Chair.

Roles and Responsibilities of the Chairman of the Board

The principal role of the Chairman of the Board is to manage and provide leadership to the Board of Directors. The Chairman is accountable to the Board and acts as a direct liaison between the Board and management of the Company through the Chief Executive Officer. In addition, the Chairman acts as a communicator for Board decisions where appropriate.

Terms of Reference	Other duties and responsibilities of the Chairman include: ▶ providing independent advice and counsel to the Chief Executive Officer; ▶ ensuring that the directors are properly informed and that sufficient information is provided to enable the directors to form appropriate judgments; ▶ developing and setting the agendas for meetings of the Board, in concert with the Chief Executive Officer; ▶ recommending to the Board the appointment of members to the committees of the Board after consultation with the directors, management and the Governance and Nominating Committee; ▶ assessing and making recommendations to the Board annually regarding the effectiveness of the Board as a whole, the committees of the Board and individual directors. In addition, the Chairman of the Board is specifically charged with responsibility for leading and managing the Board in discharging its responsibilities (See "Performance Assessments" herein). The Chairman's mandate directs him to ensure that the directors hold regular discussions without management present and he presides at such sessions. In addition, the Chairman acts as the Board's principal communicator with management.

Roles and Responsibilities of the Chief Executive Officer

The Chief Executive Officer is responsible for leading the development and execution of the Company's long term strategy with a view to creating shareholder value. The Chief Executive Officer's leadership role also entails being ultimately responsible for all day-to-day management decisions and for implementing the Company's long and short term plans. The Chief Executive Officer acts as a direct liaison between the Board and management of the Company and communicates to the Board on behalf of management. The Chief Executive Officer also communicates on behalf of the Company to shareholders, employees, government authorities, other stakeholders and the public.

Terms of Reference

Other duties and responsibilities of the Chief Executive Officer include:

- leading the development of the Company's strategy, and leading and overseeing the implementation of the Company's long and short term plans in accordance with its strategy;
- assessing the principal risks of the Company to ensure that these risks are being monitored and managed;
- ensuring effective internal controls and management information systems are in place;
- ensuring that the Company maintains high standards of corporate citizenship and social responsibility wherever it does business;
- in concert with the Chairman, developing Board agendas; and
- abiding by specific internally established control systems and authorities, leading by personal example and encouraging all employees to conduct their activities in accordance with all applicable laws and the Company's standards and policies, including its environmental, safety and health policies.

In addition, the Chief Executive Officer is made directly responsible for achieving the goals of the Company through an annual performance contract, which sets out specific financial, operational, long-term and short-term strategic and leadership goals. Please see the section headed "Summary of Executive Compensation" for a discussion of how the Chief Executive Officer's compensation is directly linked to achievement of the goals set out in his annual performance contract.

Director Share Ownership Policy

The Company adopted a Deferred Share Unit Plan for non-employee directors effective January 1, 2001 to support the alignment of director and shareholder interests. More information about the Deferred Share Unit Plan is provided under the heading "Remuneration of Directors" in the Circular.

In August 1998, the Board adopted a program regarding director ownership of Company shares, which was subsequently updated by the Company's Governance and Nominating Committee in May 2004. In May 2005, the Governance and Nominating Committee further revised the director share ownership policy to link the amount of required director ownership levels to annual retainers for Board members. The program requires non-executive directors to own a minimum number of Common Shares and DSUs, to be accumulated over a five year period. Taking into consideration the three-for-one division of the Common Shares that occurred in May 2006, the following accumulation schedule is currently in effect:

Timetable[1]	Multiple of Common Shares and/or Deferred Share Units to be Accumulated by all Non-Executive Directors[2,3]
End of Year 1	0.6 × Annual Retainer
End of Year 2	1.2 × Annual Retainer
End of Year 3	1.8 × Annual Retainer
End of Year 4	2.4 × Annual Retainer
End of Year 5	3.0 × Annual Retainer

1 Refers to years of service as opposed to calendar years. Year 1 is deemed to have commenced on May 1, 2004 for all existing directors, and will commence on May 1 of such later year during which any new individual is elected director of the Company.

2 James W. Buckee as President and Chief Executive Officer is required to comply with the Company's Executive Share Ownership Guidelines described below.

Irrespective of a non-executive director's actual Common Share or DSU ownership, a minimum of 40% of the annual Board retainer must be allocated to the DSU program. In addition, a director may voluntarily elect that all or a portion of his or her committee and Board attendance fees be allocated to the DSU program. Directors who do not meet the requirements of the director share ownership policy must either elect to receive a higher portion of their fees in the form of DSUs, or otherwise acquire shares of the Company until they are in compliance with the accumulation schedule listed above.

All directors elected at the last shareholder's meeting own shares or DSUs of the Company that meet or exceed the levels of ownership set by the internal program described above. The following table sets out each independent directors' equity ownership in the Corporation and any changes in the ownership interest since March 1, 2006.

		Equity Ownership as at March 1, 2006		Equity Ownership as at March 1, 2007[2]		Net Changes in Equity Ownership[2]			
Name	**Years of Service[1]**	**Common Shares**	**DSUs**	**Common Shares**	**DSUs**	**Common Shares**	**DSUs**	**Value of Equity Investment at March 1, 2007**	**Does the Director meet the Minimum Share Ownership Requirements?**
Douglas R. Baldwin	3	12,500	20,477	37,500	80,808	25,000	60,331	$2,341,315	✓
William R.P. Dalton	1	0	0	0	4,185	0	4,185	$ 82,821	✓
Kevin S. Dunne	3	3,000	2,917	9,000	13,004	6,000	10,087	$ 435,459	✓
Lawrence G. Tapp	3	7,122	2,290	21,366	11,205	14,244	8,915	$ 644,580	✓
Stella M. Thompson	3	7,500	6,056	22,500	22,589	15,000	16,533	$ 892,311	✓
Robert G. Welty	3	7,500	4,807	22,500	19,986	15,000	15,179	$ 840,798	✓
Charles R. Williamson	1	0	0	0	8,319	0	8,319	$ 164,633	✓
Charles W. Wilson	3	3,000	10,575	9,000	36,157	6,000	25,582	$ 893,657	✓
Total		40,622	47,122	121,866	196,253	81,244	149,131	$6,295,575	

1 Year 1 is deemed to have commenced on May 1, 2004 for all directors except for Messrs. Dalton and Williamson whose Year 1 commenced on May 1, 2006.

2 Reflects a three-for-one division of issued and outstanding Common Shares that occurred in May 2006. Includes a one-time grant of DSU's to directors in May 2006.

Executive Share Ownership Guidelines

In December 2004, the Management Succession and Compensation Committee considered and approved Executive Share Ownership Guidelines applicable to various officers of the Company effective January 1, 2005. The following basic accumulation schedule has been adopted:

Executive Level	**Ownership Requirement**
Chief Executive Officer	4 times base salary
Executive Vice-President	2 times base salary
Vice-President	1 times base salary

Executives to whom this policy applies must reach the minimum required level of share ownership within five years of the implementation of the policy. Ownership requirements also apply to persons becoming executives, and such individuals are required to reach the required level within five years of the date of his or her appointment. In calculating ownership, the aggregate value of Common Shares owned, and the net value of all exercisable and vested stock options may be used.

Policy on Business Conduct and Ethics

In December 2003, the Company revised its Policy on Business Conduct and Ethics (the "Ethics Policy") to better reflect the evolving area of corporate responsibility and to incorporate the new corporate governance standards. In 2005, the Ethics Policy was updated to elaborate the Company's procedures for the reporting of complaints related to accounting and auditing matters, to conform various aspects of the Ethics Policy to the CSA Rules and to reflect various administrative changes.

The Board monitors compliance with the Ethics Policy. Certificates are required at least annually from all worldwide employees, directors and various consultants of the Company which confirm compliance with the Ethics Policy or disclose any deviations therefrom. Disclosures contained in the certificates are compiled and reported to the Board of Directors for consideration. No waivers from this policy were granted for the benefit of the Company's directors or executive officers during the year ended December 31, 2006.

The Company's Ethics Policy is applicable to all directors, officers and employees of the Company, and can be obtained from the Company's website at www.talisman-energy.com or upon request from: Investor and Corporate Communications Department, Talisman Energy Inc., Suite 3400, 888 Third Street S.W., Calgary, Alberta, T2P 5C5, e-mail: tlm@talisman-energy.com. The Ethics Policy has been filed with Canadian securities regulators and can be accessed through www.sedar.com.

Performance Assessments

Assessments of the Board, its Committees, and individual directors (including special assessments of the Chairman of the Board and Committee Chairs) are conducted on an annual basis. The following describes the processes by which these assessments are conducted:

Annual Board Assessment by All Directors: Directors complete an annual questionnaire which assesses the Board's effectiveness and performance against its terms of reference. The questionnaires are returned to the Chairman of the Board who reviews and summarizes the results, without attribution to individual Board members, at the directors' meeting held in February of each year. As a result of the Chairman's report, Board members identify areas of improvement and communicate their discussions to management for implementation as required.

Annual Assessment of each Committee by Members of that Committee: Each Committee Chair is responsible for conducting a review of his or her Committee's performance over the past year. Members of each Committee are provided with an annual questionnaire which asks them to assess Committee performance against specific terms of reference, as well as comment on communications, presentations, reporting and other items which assist the Committee in fulfilling its mandate. Each Committee Chair reviews and summarizes the results of the review, which are then discussed with the Chairman of the Board. Areas for improvement are reported to the full Board through the Chairman's overall performance assessment discussed above.

Annual Assessment of the Chairman of the Board by All Other Directors: The Chairman of the Governance and Nominating Committee conducts an annual assessment of the Chairman of the Board. Individual responses are received by the Chairman of the Governance and Nominating Committee who summarizes the results and reports areas for improvement to the full Board.

Annual Assessment of each Committee Chair by All Other Committee Members: Members of each Committee are asked to annually assess and comment on the performance, knowledge and effectiveness of each Committee Chair.

Annual Assessment of Individual Directors by Other Directors: The annual questionnaire assessing Board effectiveness also provided directors with the opportunity to comment on the performance of individual directors. Recognizing the sensitive nature of this assessment, the Chairman of the Board also conducts individual interviews with each director to solicit feedback on the performance of their peers.

The results of the performance assessments above are used not only to ensure continuous improvement of Board effectiveness, but to identify possible adjustments to Committee structure and membership, as well as to the applicable terms of reference for the Board, its Committees and Committee Chairs, the Chairman of the Board and Chief Executive Officer.

The terms of the mandate of the Board ensure that the Company annually confirms or redetermines its long-term strategy and strategic objectives and sets its budget and development plan for the ensuing three year period. This process produces specific annual and longer term goals for the Company that are further developed into specific performance contracts for each of the executive officers of the Company based upon that executive officer's role in the Company. Through this process, each executive officer (including the President and Chief Executive Officer) individually, and the executive officers as a whole, are made directly responsible for achieving the annual and medium term goals of the Company. A significant portion of the annual compensation of each executive officer is based upon achieving these Company and individual goals.

Shareholder Communications

The Company has adopted a Disclosure Policy which applies to directors, employees and third parties who represent the Company and its subsidiaries. The objectives of the Disclosure Policy are to: (1) ensure that the Company broadly disseminates information in a timely manner in order to keep securityholders and capital markets appropriately informed regarding the Company; (2) prevent the improper use or disclosure of material information and give guidance on dealing with other confidential information pertaining to the Company; (3) raise awareness of disclosure requirements and the Company's approach to disclosure; (4) provide guidance concerning communicating corporate information to investors, industry analysts, members of the media and the investing public; and (5) ensure compliance with all applicable legal and regulatory requirements relating to disclosure.

In addition to the required annual, quarterly and timely reporting of information, the Company regularly makes presentations to industry analysts and investors and regularly holds investor open houses. The Company also meets informally upon request with investors and analysts, but is required to do so in accordance with the requirements of the Disclosure Policy. The Company's Investor Relations and Corporate Communications Department has the specific mandate of responding in a timely manner to all inquiries received from shareholders, analysts and potential investors. Shareholder inquiries or suggestions are forwarded to the appropriate person or to senior management. Shareholders may also obtain corporate information on the Company's external website at www.talisman-energy.com.

Terms of Reference – Board of Directors

Roles and Responsibilities

The principal role of the Board of Directors is stewardship of the Company with the creation of shareholder value, including the protection and enhancement of the value of its assets, as the fundamental objective. The stewardship responsibility means that the Board oversees the conduct of the business and management, which is responsible for the day-to-day conduct of the business. The Board must assess and ensure systems are in place to manage the risks of the Company's business with the objective of preserving the Company's assets. The Board, through the Chief Executive Officer ("CEO"), sets the attitude and disposition of the Company towards compliance with applicable laws, environmental, safety and health policies, financial practices and reporting. In addition to its primary accountability to shareholders, the Board is also accountable to employees, government authorities, other stakeholders and the public.

A. Primary Responsibilities

The principal responsibilities of the Board required to ensure the overall stewardship of the Company are as follows:

1. the Board must ensure that there are long-term goals and a strategic planning process in place. The CEO, with the approval of the Board, must establish long-term goals for the Company. The CEO formulates the Company's strategy, policies and proposed actions and presents them to the Board for approval. The Board brings objectivity and judgment to this process. The Board ultimately approves, on an annual basis, the strategic plan which takes into account, among other things, the opportunities and risks of the Company's business;
2. the Board must identify and have an understanding of the principal risks associated with the Company's businesses, and must ensure that appropriate systems are in place which effectively monitor and manage those risks;
3. the Board must ensure that processes are in place to enable it to monitor and measure management's, and in particular the CEO's, performance in achieving the Company's stated objectives. These processes should include appropriate training, development and succession planning of management;
4. the Board shall satisfy itself as to the business and professional integrity of the CEO and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the Company;
5. the Board must ensure that the necessary internal controls and management systems are in place that effectively monitor the Company's operations and ensure compliance with applicable laws, regulations and policies;
6. the Board must monitor compliance with the Company's Policy on Business Conduct and Ethics;
7. the Board must ensure that processes are in place to properly oversee Company sponsored pension plans; and
8. the Board must ensure the Company has a communications program in place which effectively communicates with and receives feedback from shareholders. The Board must also ensure that the Company has appropriate processes in place to effectively communicate with employees, government authorities, other stakeholders and the public.

B. Non-Delegable Responsibilities

Pursuant to the *Canada Business Corporations Act* (the "Act"), various matters are considered of such importance so as to warrant the attention of all Directors and, accordingly, the Act prescribes that such matters either cannot be delegated or may only be delegated in a qualified or partial manner:

1. the submission of items to shareholders for their approval;
2. the filling of a vacancy among the directors or in the office of auditor;
3. the appointment of additional directors;
4. the issue of securities;
5. the declaration of dividends;
6. the purchase, redemption or other acquisition of the Company's own shares;
7. the payment of certain commissions prescribed by the Act;
8. the approval of a management proxy circular;
9. the approval of annual financial statements;
10. the adoption, amendment or repeal of by-laws; and

11. the review and approval of
    a. the content and filing of the Company's statement of reserves data and other oil and gas information;
    b. the filing of the report on reserves data by the Company's Qualified Reserves Evaluator or Auditor; and
    c. the content and filing of the Company's report of management and directors on oil and gas disclosure.

C. Typical Board Matters

The following is not an exhaustive list but typifies matters generally considered by the Board in fulfilling its responsibility for stewardship of the Company. The Board may determine it appropriate to delegate certain of these matters to committees of the Board:

1. appointment of officers, other than executive officers;
2. considering the appropriate size of the Board, with a view to facilitating effective decision-making;
3. adopting a process to consider and assess the competencies and skills of each Board member and the Board as a whole;
4. determining the remuneration of directors, auditors, and, if applicable, trustees of the pension funds;
5. reviewing and recommending to shareholders, changes to capital structure;
6. approving the Company's long term strategy and the annual capital expenditure plan of the Company and its subsidiaries and where appropriate any supplementary capital plan;
7. approving banking, borrowing and investment policies;
8. determining dividend policy;
9. developing the Company's approach to corporate governance including, without limitation, developing a set of corporate governance principles and guidelines;
10. approving the holding, location and date of meetings of shareholders;
11. appointment of members to committees of the Board of Directors and approving terms of reference for and the matters to be delegated to such committees;
12. granting any waivers from the Company's Policy on Business Conduct and Ethics for the benefit of the Company's directors or executive officers;
13. granting and delegating authority to designated officers and employees including the authority to commit capital, open bank accounts, sign bank requisitions and sign contracts, documents and instruments in writing;
14. determining the number of directors and recommending nominees for election by the shareholders;
15. if applicable, appointing trustees of the pension plans;
16. approving amendments to the Company's existing plans: Pension Plans, Employee Savings Plan, Employee Stock Option Plan, Director Stock Option Plan, employee benefits plans, or such other plans as the Company approves from time to time;
17. approving the acquisition or disposition of certain corporate assets; and
18. appointing the Company's transfer agents and registrars.

D. Board Committees

The Board of Directors has the authority to appoint a committee or committees of the Board and may delegate powers to such committees (with the exceptions prescribed by the Act). The matters to be delegated to committees of the Board and the constitution of such committees are assessed annually or more frequently as circumstances require. The following committees are ordinarily constituted:

1. the Governance and Nominating Committee, to deal with governance of the Company and the nomination and assessment of Directors;
2. the Audit Committee, to deal with financial reporting and control systems;
3. the Pension Funds Committee, to deal with employee pension plans and related matters;
4. the Management Succession and Compensation Committee, to deal with the assessment of management and succession to key positions and compensation within the Company;
5. the Executive Committee, to deal with general corporate matters and matters which are incidental to previous Board authorizations; and
6. the Reserves Committee, to deal with matters relating to the Company's oil and gas reserves and related reporting.

Composition and Procedure

The Board of Directors is elected annually by shareholders and consists of a minimum of four directors and a maximum of 20 directors, as determined from time to time by the Directors. The number of Directors is currently comprised of nine members. While the election of directors is ultimately determined by the shareholders, it is the policy of the Board that a majority of the Directors as well as the Chairman of the Board be independent (as defined under applicable stock exchange rules and securities laws).

The Chairman of the Board presides as Chair at all meetings of the Board and shareholders of the Company. The Corporate Secretary or, in the absence of the Corporate Secretary, an Assistant Corporate Secretary attends all meetings of the Board and shareholders and records the proceedings thereof. The Corporate Secretary prepares and keeps minutes and records of all meetings of the Board.

Meetings of the Board of Directors, including telephone conference meetings, are to be held at such time and place as the Chairman of the Board, the President and CEO, an Executive Vice-President who is a Director, or any two Directors may determine. Notice of meetings shall be given to each Director not less than 48 hours before the time of the meeting. Meetings of the Board of Directors may be held without formal notice if all of the Directors are present and do not object to notice not having been given, or if those absent waive notice in any manner before or after the meeting.

Notice of meeting may be delivered personally, given by mail, facsimile or other electronic means of communication.

Any five members of the Board of Directors constitutes a quorum at any meeting.

Each Board member is expected to attend Board meetings and meetings of committees of which he or she is a member and to become familiar with deliberations and decisions as soon as possible after any missed meetings. In that regard, members of the Board are expected to prepare for Board (and committee) meetings by reviewing meeting materials distributed to members of the Board, to the extent feasible, in advance of such meetings. Matters of a confidential or sensitive nature may be discussed at Board (or committee) meetings without advance distribution of meeting materials to members of the Board. It is expected that members of the Board will actively participate in determining and setting the long and short term goals and interests of the Corporation.

In recognition of its independence, the Board shall regularly hold discussions without management present.

A resolution in writing signed by all the Directors entitled to vote on that resolution at a meeting of the Directors is as valid as if it had been passed at a meeting of the Directors. A copy of any such resolution in writing is kept with the minutes of the proceedings of the Directors.

At meetings of the Board, any matter requiring a resolution of the Directors is decided by a majority of the votes cast on the question; and in the case of an equality of votes, the Chair of the meeting is entitled to a second or casting vote.

The Board shall ensure that there is a process in place for annually evaluating the effectiveness of the Board, the committees of the Board and individual directors.

Compensation

No Director, unless he or she is an officer of the Company, should receive remuneration from the Company other than compensation received in his or her capacity as a Director.

TALISMAN

ENERGY

3400, 888 - 3rd Street SW
Calgary, Alberta, Canada T2P 5C5
Telephone: (403) 237-1234
Facsimile: (403) 237-1902
tlm@talisman-energy.com
www.talisman-energy.com


annual report summary
creating value:
in the upstream oil and gas business
TALISMAN
ENERGY

Talisman Energy Inc. is an upstream oil and gas company with a balanced portfolio of North American and international operations. Talisman was established as an independent company in 1992 and has its headquarters in Calgary, Alberta, Canada.

Talisman is listed on both the Toronto and New York stock exchanges under the symbol TLM. Talisman is also part of the S&P/TSX 60 index. At year-end, the Company had an enterprise value (market value of common shares plus book value of debt) of approximately $25 billion, with 1,064 million shares outstanding.

Talisman is committed to conducting its business in an ethically, socially and environmentally responsible manner. The Company is a participant in the United Nations Global Compact and is also included in the Dow Jones Sustainability (North America) Index.

Readers are referred to the advisories, definitions and abbreviations at the back of this Annual Report Summary. Talisman Energy Inc.'s subsidiaries conduct business in various parts of the world. For ease of reference, the terms 'Talisman' and 'Company' are used in this Annual Report Summary to refer collectively to Talisman Energy Inc., its direct and indirect subsidiaries and partnership interests held by Talisman Energy Inc. and its subsidiaries, unless indicated otherwise. References to production, reserves, acreage and drilling are gross (before royalty) numbers, unless otherwise indicated.

Talisman encourages its stakeholders to read the Company's 2006 Annual Financial Report, which contains Management's Discussion and Analysis, audited Consolidated Financial Statements and Notes, and Supplementary Information, as well as its 2006 Corporate Responsibility Report. These documents can be obtained from the Company or viewed online at **www.talisman-energy.com**.

Front Cover Talisman-o
Piper B platform located in th
Sea. Modifications are being r
the Piper platform to handle ad
production volumes from Ta
Tweedsmuir field devel

Inside Fron
Cowlick 14-26-5
in Alberta F

proven track record

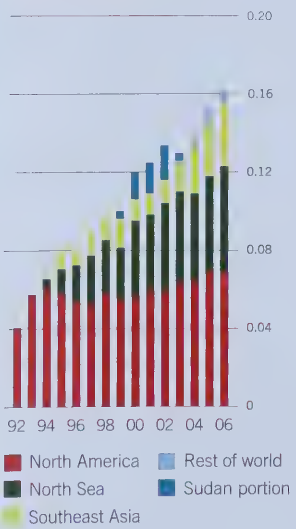
Talisman's mission is to create value for its shareholders by growing reserves, production and cash flow per share. The Company's target is 5 to 10% annual production per share growth.

Talisman's strategic focus is high deliverability, deep gas opportunities in North America and large international oil and natural gas projects. The Company believes this strategy will enable it to continue to meet its growth targets while generating superior economic returns.

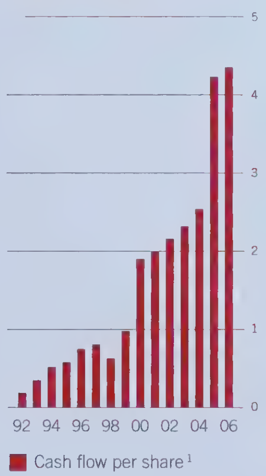
In 2006, 96% of Talisman's production came from three operating regions: North America, the North Sea and Southeast Asia. Approximately 54% of Talisman's production was high quality crude oil and liquids and 46% was natural gas.

Over the past 15 years, Talisman has grown production per share by 10% annually and cash flow per share[1] by 25% annually.

Production per Share Growth boe/share



Cash Flow per Share Growth C$/share



1 Non-GAAP measure. See advisories on page 36.

Readers are referred to Talisman's 2006 Annual Financial Report, which contains Management's Discussion and Analysis, audited Consolidated Financial Statements and Notes, and Supplementary Information. The Annual Financial Report can be obtained from the Company or viewed online at **www.talisman-energy.com**.

highlights

(millions of C$ unless otherwise stated)	2006	2005	2004
Gross sales	**10,030**	9,554	6,874
Cash flow [1]	**4,748**	4,672	2,916
Net income	**2,005**	1,561	654
Earnings from continuing operations [1]	**1,583**	1,853	629
Shares outstanding (millions) at December 31 [3]	**1,064**	1,099	1,126
Per common share [3]			
Cash flow ($) [1]	**4.35**	4.23	2.54
Net income ($)	**1.84**	1.41	0.57
Earnings from continuing operations ($) [1]	**1.45**	1.68	0.55
Annual dividend ($)	**0.15**	0.11	0.10
Production (boe) [2,5]	**0.162**	0.155	0.139
Proved reserves (boe) [2,5]	**1.57**	1.49	1.32
Total assets [8]	**21,461**	18,354	12,408
Long-term debt	**4,560**	4,263	2,457
Oil production (mbbls/d) [2]	**262**	250	228
Gas production (mmcf/d) [2]	**1,342**	1,319	1,259
Total production (mboe/d) [2,5]	**485**	470	438
Total net production (mboe/d) [4,5]	**402**	390	365
Exploration and development spending	**4,578**	3,179	2,538
Year-end proved reserves (mmboe)	**1,667**	1,639	1,488
Net wells drilled (number)	**470**	419	405
Realized oil and gas price ($/boe) [6,7]	**57.45**	56.67	42.75
WTI oil price (US$/bbl)	**66.25**	56.70	41.40
NYMEX gas price (US$/mmbtu)	**7.26**	8.55	6.09
Permanent employees at December 31 (number)	**2,388**	2,138	1,870

All data, except earnings from continuing operations, includes results of continuing and discontinued operations.

1 Non-GAAP measure. See advisories and definitions on page 36.

2 Production and reserve numbers are before royalties unless otherwise indicated.

3 Prior years per common share numbers have been adjusted to reflect the three-for-one share split, which was effected in May 2006.

4 Net production (after royalties).

5 Six mcf of natural gas equals one boe.

6 Before hedging.

7 Excludes synthetic oil.

8 Prior years have been restated to include bank indebtedness as a liability.

2006 year in review

With the progress made on development projects, non-core asset sales and share buybacks in 2006, Talisman expects significant production per share growth in 2008 and 2009.

Gross sales were up 5% to $10 billion (including $668 million from discontinued operations) on higher volumes and oil prices.

Cash flow[1] increased 2% to $4.7 billion ($4.35/share). The Company expects to generate approximately $5 billion in cash flow in 2007[2].

Net income was a record $2 billion versus $1.6 billion a year earlier. The 2006 results include $432 million of after tax gains on dispositions.

Earnings from continuing operations[1] were $1.6 billion. This measure adjusts for one-time and non-operational factors.

The Company announced plans to sell approximately 57,000 boe/d of non-core assets to streamline operations and focus on higher return and higher growth projects. The proceeds from some of these sales have been directed toward repurchasing Talisman shares.

Over the 12-month period ending February 28, 2007, the Company had repurchased approximately 51 million shares at a cost of $958 million.

The Company increased its annual dividend by 32% to 15 cents per share.

The Company subdivided its shares on a three-for-one basis in order to increase trading liquidity.

Production increased by 3% to 485,000 boe/d, largely due to increased Southeast Asian oil volumes. Production per share increased by 4.4%. After asset sales, Talisman expects production in 2007 to average 485,000 boe/d[3], with production per share growth expected to be within its targeted range of 5 to 10%.

Year-end proved reserves were 1.67 billion boe (46% oil and liquids and 54% natural gas). The Company added 202 mmboe of proved reserves through drilling and revisions, replacing 116% of production. Talisman's reserves life index is 15.2 years based on proved and probable reserves.

Year-end debt was $4.6 billion with a debt to trailing cash flow[1] ratio of 0.96.

Exploration and development spending was $4.6 billion and is expected to be $4.8 billion in 2007. The Company spent $1.55 billion on exploration (including low risk drilling in Western Canada) and $3 billion on development activities.

The Company participated in 470 net oil and gas wells with a 97% success rate.

Talisman's realized oil equivalent price was up 1% as international oil prices increased by 17% and North American natural gas prices fell 15%.

2007 outlook

Production guidance of 485,000 boe/d, +/– 5%

5 to 10% production per share growth

$5 billion in cash flow

Completion of announced asset sales

Continuing share repurchases

1 Cash flow and earnings from continuing operations are non-GAAP measures. See advisories on page 36.
2 Assumes production of 485,000 boe/d, US$65/bbl WTI oil price, US$7.50/mmbtu NYMEX gas price, US$/C$0.90 exchange rate.
3 +/– 5%.

Dr. Jim Buckee
President and
Chief Executive Officer

discussion with Dr. Jim Buckee

Financially, 2006 was a good year for Talisman with record cash flow and earnings. The Company continued to progress its major developments in the North Sea and Southeast Asia. We continue to act to increase long term shareholder value while maintaining a prudent balance sheet. We increased the dividend by 32% and split Talisman shares on a three-for-one basis to enhance liquidity. We've announced the sale of approximately 57,000 boe/d of non-core assets with the intent of using a large portion of the proceeds to repurchase Talisman shares.

What is your assessment of Talisman's performance in 2006?

JIM ▶ Operationally, 2006 was a difficult year not only for Talisman but for oil and gas producers in general, due in part to adverse weather and lengthy procurement lead times. Having said that, we did generate $4.75 billion in cash flow, our eighth consecutive record, despite lower natural gas prices and a stronger Canadian dollar. Net income was also a record $2 billion, up from $1.6 billion in 2005. Talisman's production averaged 485,000 boe/d and we increased production per share by 4.4% year-over-year. We also made significant progress on our development projects in the North Sea and Southeast Asia.

I was disappointed with the Company's share price performance in 2006. The share price fell 3.5% last year, although, including the 90% increase in 2005, Talisman's share price performance has exceeded our peer group over the past two years.

We did generate $4.75 billion in cash flow, our eighth consecutive record.

I was disappointed with the Company's share price performance in 2006.

What were some of the highlights from last year?

JIM ▶ In North America, we drilled 496 successful natural gas wells, including significant discoveries in the Alberta Foothills, in Monkman and in Appalachia, which have extended existing play boundaries. We are also developing a major new natural gas play along the Outer Foothills, where we acquired over 260,000 gross acres in 2006 and believe the unrisked contingent and prospective resource potential could be 1 to 2 tcf. The Company set new production records in the Alberta Foothills and in Bigstone/Wild River. The Palliser and Lynx Pipelines were completed and Talisman Midstream Operations transported a record 600 mmcf/d of natural gas in February 2007. We acquired additional, highly prospective acreage in Alaska where we now hold interests in almost one million net acres.

In North America, we added a record 471 bcf of proved natural gas reserves, replacing 142% of gas production.

In the North Sea, we drilled 32 successful oil and gas wells. The Company continues to progress nine developments in the UK and two in Norway, which we expect will increase our total North Sea production to between 230,000 to 240,000 boe/d in 2009. This includes 26,000 boe/d from the Yme field redevelopment in Norway, which was sanctioned at year-end. I was pleased with the integration of the Paladin assets and the acquisition of the Auk and Fulmar fields. Auk has over 800 mmbbls of original oil in place, a recovery factor to date of only 18% and a lot of development potential. We also installed the first five megawatt turbine as part of the Beatrice Wind Farm Project.

The Company continues to progress nine developments in the UK and two in Norway, which we expect will increase our total North Sea production to between 230,000 to 240,000 boe/d in 2009.

In Indonesia, the 400 mmcf/d gas plant expansion at Corridor has been tied in, in preparation for first sales to West Java. We participated in a phenomenal well in the Corridor Block which is on production at 150 mmcf/d. We also acquired a highly prospective deepwater exploration block, west of Sulawesi. In Malaysia/Vietnam, the Bunga Tulip development came onstream in the fourth quarter at approximately 4,000 boe/d. We have started work on the PM-3 CAA Northern Fields development, with first liquids production expected in the third quarter of 2008, ramping up to 40,000 bbls/d by year end. In Vietnam, we drilled a successful exploration well on Block 15-2/01 at year-end. The well tested at 14,863 bbls/d and appraisal work is underway. This could be a significant discovery.

We have started work on the PM-3 CAA Northern Fields development, with first liquids production expected in the third quarter of 2008, ramping up to 40,000 bbls/d by year-end.

In Vietnam, we drilled a successful exploration well on Block 15-2/01 at year-end. This could be a significant discovery.

In Algeria, we are continuing with the Phase 2 expansion of the Greater MLN gas reinjection project. In Tunisia, we acquired rights to the prospective El Hamra Block. We drilled two successful offshore exploration wells in Trinidad and Tobago and acquired a highly prospective exploration block in Colombia.

We replaced 116% of production through drilling and revisions in 2006, growing proved reserves by 2% to 1.67 billion boe. In North America, we added a record 471 bcf of proved natural gas reserves, replacing 142% of gas production. Internationally, we replaced 123% of liquids production.

Production in 2006 was below expectations. Is this a concern going forward?

JIM ▶ Our original forecast for 2006 was between 515,000 and 545,000 boe/d and, accounting for asset sales, we missed the midpoint of the range by 7.5%. However, the shortfall was mainly due to poor weather, longer procurement lead times and unexpected operating challenges. Given extremely tight industry conditions, many companies missed production guidance last year.

In North America, inclement weather delayed well tie-ins and infrastructure completions, while numerous third-party outages resulted in shut-in production. In the North Sea, production shutdowns for maintenance took longer than expected and there was an extended outage at Ross/Blake due to compressor problems. We also experienced extended compressor outages in North America and Algeria. Natural gas nominations in Malaysia were lower than expected and both oil and gas production was affected by an extended maintenance turnaround due to adverse weather conditions.

I believe we are steadily overcoming our production issues. We have taken a more conservative approach to forecasting our 2007 volumes, factoring in additional downtime for maintenance, turnarounds and unplanned shutdowns.

I believe we are steadily overcoming our production issues.

For 2007, we expect production to average 485,000 boe/d, +/– 5%.

Based on the midpoint of our production guidance, cash flow is expected to be approximately $5 billion in 2007.

We prudently set our 2007 spending to focus on high quality projects while operating in a volatile commodity price environment.

For 2007, we expect production to average 485,000 boe/d, plus or minus 5%. This includes the impact of non-core asset sales, which will total approximately 57,000 boe/d when completed. With new projects coming onstream in the North Sea, additional oil and gas volumes in Southeast Asia and continued successful drilling in North America, we expect production in 2009 to be 20 to 30% above projected 2007 levels.

What are Talisman's plans in 2007?

JIM ▶ Based on the midpoint of our production guidance, cash flow is expected to be approximately $5 billion in 2007. This assumes a US$65/bbl WTI oil price, a US$7.50/mmbtu NYMEX natural gas price and a 90 cent Canadian dollar. As of early March, oil prices were lower than our forecast but were partially offset by the weaker Canadian dollar, so I am still comfortable with this cash flow estimate.

We prudently set our 2007 spending to focus on high quality projects while operating in a volatile commodity price environment. Exploration and development spending is budgeted at $4.8 billion in 2007, compared to $4.6 billion in 2006. North America and the North Sea account for approximately 80% of the capital program.

The strategy for Talisman's North American operations is disciplined organic growth through drilling, focusing on material, scalable, conventional gas plays. We continue to be the leading deep gas driller in Western Canada. More than 90% of our spending in Canada and the US Lower 48 is being directed toward natural gas projects. Half of this is focused on four core gas areas: the Alberta Foothills, Edson, Bigstone/Wild River and Monkman. The sale of non-core, mature properties, combined with significant land purchases, has rejuvenated our Western Canadian land base and we are better positioned for long term growth.

Talisman's successful North Sea strategy has been to develop commercial hubs around core operated properties and infrastructure; 2007 should see the completion of several development projects and integration of the Fulmar/Auk assets. Key projects include Tweedsmuir, Duart, Enoch, Wood, Blane and Affleck, as well as the tieback of the Galley field to Tartan. In Norway, work is proceeding on the Rev and Yme field developments.

In Southeast Asia, Talisman will continue to focus on low cost oil and natural gas developments. In Indonesia, we are commissioning the Phase 2 expansion of our gas processing facilities at Corridor in preparation for new gas sales to West Java. In Malaysia and Vietnam, we will progress the Song Doc and the PM-3 CAA Northern Fields developments, with first production expected in 2008. In addition, we are delineating our oil discovery in Vietnam and plan to drill up to three additional exploration wells on this highly prospective block this year.

Talisman plans to spend $53 million in Algeria, most of which is related to Phase 2 expansion of the Greater MLN gas reinjection facilities. The Company also plans to spend approximately $65 million in Trinidad and Tobago for development drilling at Angostura and both onshore and offshore exploration drilling.

Elsewhere, we have built a highly prospective acreage position in Alaska. The 2007 program includes up to three high impact exploration wells. In Qatar, up to two exploration wells are planned for 2007. In Peru and Colombia, activities will be focused on seismic acquisition. We have built a very exciting international exploration portfolio, including Alaska and the Northwest Territories, which contains approximately 350 prospects and leads with upside exposure to over five billion boe of prospective resources (P50, net unrisked).

What is the rationale behind selling assets and buying back shares? Are you contemplating any other large sales or acquisitions?

JIM ▶ My objective, and that of management and the Board, is to create value for shareholders. Because we have no control over prices, one of the most important metrics is production per share, which represents measurable value. Talisman's goal is to grow production per share at a rate of at least 5 to 10% annually.

The non-core assets we are selling represent about 10% of the Company's production and we do not see meaningful production growth from them. These sales also simplify the asset base and free our people to focus on higher value projects.

Using some of these proceeds to increase our per share metrics at an attractive price is highly accretive to shareholder value. We continually review new opportunities, including tuck-in acquisitions, although right now I am happy with our core assets and with the organic production growth we expect in 2008 and 2009.

There has been some discussion among the analyst community of splitting up the Company. What are your views?

JIM ▶ The opinion that the sum of the parts is greater than the whole is really a statement that our true value is not recognized by the market. With our current course of action, I believe we will rectify this by delivering strong operating and financial results, which, over time, should attract the right valuation.

Some investors say we are hard to value. This is likely true, but it is the result of diversity, which we view as a strength. Talisman provides comprehensive segmented information as well as detailed guidance to assist analysts and investors with their financial and operational estimates. There are no obvious operating efficiencies from two or three separate companies; in fact, the opposite is true. The time, effort, cost and potential tax inefficiencies from a breakup could see significant leakage of shareholder value. Additionally, we would not want to do anything that would have an adverse impact on our credit ratings or debt holders.

We have built a very exciting international exploration portfolio, including Alaska and the Northwest Territories, which contains approximately 350 prospects and leads with upside exposure to over five billion boe of unrisked prospective resources.

Using some of these proceeds to increase our per share metrics at an attractive price is highly accretive to shareholder value.

If this Company had different segments in unrelated businesses, a breakup might make more sense. But the oil and gas business is virtually the same wherever you go. We maintain a core of technical, commercial, financial and legal expertise at head office and have very strong regional centres. With video conferencing and high speed data communication, it is not difficult to manage our five major international operations offices.

We have examined this option carefully in the past and recognize the potential market arbitrage. However, I believe there is also value in having geographic and product diversity, particularly in a business where drilling results can be lumpy and commodity prices volatile. For example, when North American natural gas prices were falling last year, our international gas netbacks increased. Our exploration and development projects around the world compete for capital, which allows Talisman to continually high grade its investments. As evidence that this works, Talisman has one of the highest returns on capital employed and best recycle ratios among the peer group.

Talisman has one of the highest returns on capital employed and best recycle ratios among the peer group.

Some of your peers point to non-conventional oil and gas projects with 10 or more years of resource potential. Are you looking at non-conventional plays and how would you characterize Talisman's long-term growth potential?

JIM ▶ We continue to look at what we are doing versus the non-conventional business and we like our economics better. Talisman has a lot of shale and coal bed methane acreage but, when we run the economics, they are currently less attractive than our conventional plays. Similarly, the oil sands business is very capital and energy intensive with a lot of variability in the underlying resource quality. I believe that execution and operation of many of the projects will prove more difficult than expected.

By focusing on conventional oil and natural gas plays, we have the flexibility to quickly scale programs up or down. Talisman's business model is repeatable, we still see a lot of opportunities in domestic deep gas and internationally with projects that generate high returns and pay out quickly. The deeper parts of the Canadian Basin are relatively underexplored. We have built a strong land position, we have experienced people and we continue to drill prolific wells; all supported by a midstream business operated by Talisman. Our operations people in North America believe we have 10 or more years of growth opportunities in and around our deep gas plays.

Our operations people in North America believe we have 10 or more years of growth opportunities in and around our deep gas plays.

In the North Sea, we operate eight fields with almost five billion barrels of original hydrocarbons in place and 70% of this is remaining. The combination of Talisman-owned infrastructure, new technology, current prices, extended-reach drilling, longer subsea tiebacks and the relative immaturity of the Norwegian sector means there is a lot of running room for a company our size in the North Sea.

In the North Sea, we operate eight fields with almost five billion barrels of original hydrocarbons in place and 70% of this is remaining.

In Southeast Asia, there is more than two trillion cubic feet of uncontracted gas in the Corridor field alone (Talisman share 36%), which is waiting to be booked upon completion of new gas sales contracts. We have over 60 mmboe of reserves in the Northern Fields under development in PM-3 CAA. In Vietnam, the potential on Block 15-2/01 looks very promising. There are a number of leads and prospects on the block and the risk has gone down considerably with our recent exploration success. This could become a new core producing area for Talisman.

We have significant exploration opportunities in each of our core producing areas, together with the upside we see in Alaska, Colombia and Peru. I believe this is the best exploration opportunity set we have had in Talisman's history. Over the 15 years Talisman has been in business, we have consistently replaced reserves and grown production through the drill bit and we have achieved 10% annual average production per share growth. With the addition of new exploration acreage last year and ongoing development projects, Talisman is extremely well positioned for future growth.

Did the drop in oil and gas prices surprise you? Have your long-term views changed?

JIM ▶ No, I think that prices will fluctuate due to short term imbalances around a secular increasing trend. If you look at underlying industry supply/demand data, not much has changed from the highs to the lows.

At US$50 a barrel, I believe prices were too low. If oil demand grows at more than 1 to 2% annually, it will be increasingly difficult to continue to add enough new productive capacity. Underpinning the long-term price of oil is the fact that the world is consuming over 30 billion barrels a year and replacing only a fraction of this with new discoveries. In the long term, I see the need for significantly higher prices to moderate demand and bring new supplies onstream.

My view is that the marginal cost of new natural gas supplies in North America, including a lot of tight or shale gas, but excluding LNG, is likely above US$7 to $8/mcf. However, we have also seen industrial demand collapse at prices above US$10/mcf, so supply and demand should balance somewhere in between.

Any other comments?

JIM ▶ I'd like to thank Talisman staff for their efforts this year. We have an exceptionally talented and dedicated group of people working for this Company. I'd also like to thank Mike McDonald, our former Executive Vice-President and Chief Financial Officer, and Joe Horler, our former Executive Vice-President, Marketing, both of whom retired in 2006, as well as the Talisman Board for their support and guidance over the past year.

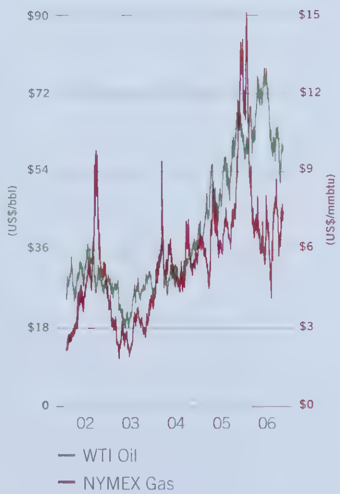
James W. Buckee
President and Chief Executive Officer
March 13, 2007

We have large exploration opportunities in each of our core producing areas.

I think that prices will fluctuate due to short term imbalances around a secular increasing trend.

In the long term I see the need for significantly higher prices to moderate demand and bring new supplies onstream.

WTI Crude Oil and NYMEX Gas Price



business environment

commodity prices

The benchmark WTI oil price averaged $66.25/bbl in 2006, an increase of 17% compared to the previous year. World oil consumption reached a record 84.2 mmbbls/d. However, growth in world oil demand continued to slow, estimated at 0.7% in 2006, compared to 1.5% in 2005 and 4% in 2004. Despite limited spare production capacity and political unrest in oil producing regions, oil prices fell to US$60.17/bbl in the fourth quarter of 2006. The weakness was due to high inventory levels, fears of a US economic slowdown and predictions for lower demand growth.

NYMEX natural gas prices averaged US$7.26/mmbtu in 2006, a decrease of 15%, compared to 2005. US natural gas demand fell again in 2006, while record drilling and a benign hurricane season resulted in increased production and very high natural gas inventories at year-end.

Cold weather and OPEC production cuts combined to strengthen natural gas prices and stabilize oil prices in early 2007. Talisman's 2007 cash flow forecast is based on a US$65/bbl WTI oil price, US$7.50/mmbtu NYMEX gas price and US$/C$ exchange rate of $0.90.

netbacks

Talisman's realized oil and gas netbacks decreased by 0.5% to average $36.98/boe in 2006.

In 2006, the North Sea continued to be Talisman's highest netback region.

Sales prices averaged $57.45/boe, an increase of 1%, reflecting an increase in world oil prices and Talisman's international natural gas prices, offset largely by the drop in North American natural gas prices. Although most oil and natural gas sales are priced off US dollar denominated benchmarks, Talisman reports its netbacks in Canadian dollars. The Canadian dollar strengthened by 6% against its US counterpart in 2006. This had an adverse effect on Talisman's reported netbacks.

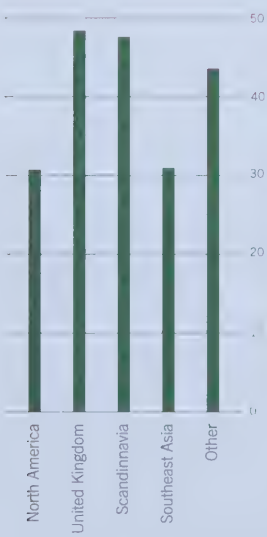
Royalty rates were unchanged at 17% in 2006.

Unit operating costs averaged $9.98/boe, an increase of 19% over the previous year. The increase is due to a change in Talisman's production mix, as well as increased spending on maintenance, extended turnarounds and higher power costs.

Talisman reported a small hedging gain, although the Company remained relatively unhedged throughout the year.

Detailed information on the Company's netbacks can be found in Talisman's Annual Financial Report.

Netbacks by Region
$/boe



($/boe)	2006	2005	2004	2003	2002
Sales price	**57.45**	56.67	42.75	38.51	32.89
Hedging (gain) loss	**(0.37)**	0.46	3.02	1.34	(0.46)
Royalty	**9.58**	9.41	7.04	6.18	5.74
Transportation	**1.28**	1.21	1.20	1.26	1.20
Operating expenses	**9.98**	8.41	7.26	6.98	6.14
Netback	**36.98**	37.18	24.23	22.75	20.27

Note: Excludes synthetic.

high quality reserves

Talisman's proved reserves are approximately 46% high quality oil and liquids and 54% natural gas.

reserves

Talisman replaced 116% of production through drilling and revisions to proved reserves in 2006 and increased its total proved reserves by 2% to 1.67 billion boe. Net of royalties, the Company had 1.4 billion boe of proved reserves (up 4%).

At year-end, Talisman had 5.4 tcf of proved natural gas reserves and 767 mmbbls of proved oil and liquids reserves.

The Company added a record 471 bcf of proved natural gas reserves in North America, replacing 142% of production through drilling and revisions. Internationally, Talisman replaced 123% of liquids production organically.

Talisman proved reserves	Oil & NGL (mmbbls)	Natural Gas (bcf)	BOE (mm)
December 31, 2005	736	5,417	**1,639**
Discoveries, extensions and additions	80	564	**174**
Net acquisitions	11	(61)	**1**
Revisions	34	(34)	**28**
Production	(94)	(483)	**(175)**
Total Proved, December 31, 2006	767	5,403	**1,667**
Total Probable, December 31, 2006	544	2,650	**986**

At year-end, Talisman had a reserves life index of 9.5 years for proved reserves and 15.2 years for proved and probable reserves.

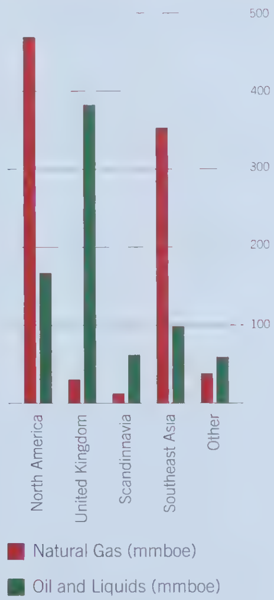
Approximately 38% of the Company's total proved reserves are in North America, with the North Sea accounting for 29% and Southeast Asia 27%. At year-end, the Company had 986 mmboe of probable reserves, which comprise a large part of Talisman's development inventory.

Exploration and development spending during 2006 totaled $4.4 billion, excluding Syncrude and Midstream expenditures. Net of acquisitions and divestitures, capital spending was $3.7 billion.

Talisman has an internal qualified reserves engineer who evaluates all of the Company's reserves estimates. In addition, approximately 86% of Talisman's proved reserves have been audited by outside engineering firms over the past four years.

Approximately 38% of the Company's total proved reserves are in North America, with the North Sea accounting for 29% and Southeast Asia 27%.

Proved Reserves by Region



North America

Talisman's strategy in North America is disciplined growth through the drill bit, focusing on material, conventional plays where we have a competitive advantage.

We are the leading deep gas explorer in Western Canada, applying our technical skills on deep and multi-zone gas opportunities along the Foothills.

The Company believes it can grow its North American natural gas production at rates of 3 to 5% annually (excluding asset sales) through drilling and has at least 10 years of growth opportunities.

Grande Cache
2-5-60-10W6 in
Alberta Foothills

2006 in review

In North America, the Company's focus is on deeper, high deliverability wells in the Rocky Mountain Foothills, as well as multi-horizon plays in the overthrust belt. Talisman has built a substantial high working interest land position supported by Talisman-operated infrastructure.

Industry surveys show that Talisman has added more reserves per successful well than its peers over the past five years. The Company drilled a number of very high deliverability wells again in 2006. Talisman also replaced 142% of its North American natural gas production through drilling and revisions.

The Company announced it is developing a new natural gas area in the Outer Foothills, adding approximately 260,000 acres of land. The Lynx and Palliser Pipelines were completed and Talisman Midstream Operations transported a record 600 mmcf/d in February 2007. In Alaska, Talisman added to its landholdings and currently has approximately one million net acres.

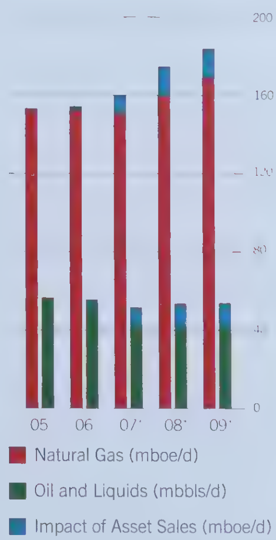
- natural gas production averaged 910 mmcf/d, compared to 915 mmcf/d in 2005;
- liquids production averaged 53,227 bbls/d, compared to 56,304 bbls/d in 2005;
- Talisman disposed of a number of low working interest properties. This lowered the Company's production by 3,200 boe/d for the year (10.5 mmcf/d of gas and 1,432 bbls/d liquids). The Company also sold a 2% royalty interest in an undeveloped oil sands lease for $108 million. In early 2007, Talisman closed the sale of its indirect Syncrude interest for $477 million;
- Talisman successfully drilled 496 gross natural gas and 194 oil wells;
- exploration and development spending was $2.4 billion, with 90% directed toward natural gas;
- Talisman added 471 bcf of proved natural gas reserves through drilling and revisions. At year-end, the Company had 2.8 tcf of proved natural gas reserves;
- conventional operating costs averaged $6.95/boe, up from $5.87/boe in 2005, mainly due to increased processing, maintenance and power costs;
- Talisman set new production records in its Alberta Foothills (193 mmcf/d) and Bigstone/Wild River (136.7 mmcf/d) regions;
- the Company drilled another successful, deep Paleozoic well and three successful Triassic wells in its core Monkman Area;
- in Appalachia, the Company drilled 33 successful gas wells, including two Trenton Black River wells that came onstream at 34 mmcf/d; and
- Talisman was awarded approximately 851,000 gross acres in the Northwest Territories (50% working interest).

2007 outlook

- exploration and development spending is expected to be $2.3 billion, with approximately 90% directed toward natural gas projects;
- production is expected to average 900 mmcf/d of natural gas and 42,500 bbls/d of oil and liquids [1];
- Talisman plans to participate in 448 wells, including up to three in Alaska, 30 in Appalachia, six in Monkman, 185 in the Edson area and 30 in the Alberta Foothills; and
- Talisman intends to sell additional non-core assets with 2006 year-end production of approximately 16,000 boe/d.

1 Production targets have a confidence level of +/– 5% and include the impact of planned asset sales

Production Growth



*Estimate

North Sea

Talisman is a leading independent operator in both the UK and Norwegian sectors of the North Sea. The Company has a proven track record with demonstrated technical, commercial and operating skills. Talisman has established a number of commercial core areas, which provide significant value through low risk development, exploration opportunities, secondary recovery and third party tariff revenue.

Talisman's focus is the Central North Sea where there is significant remaining hydrocarbon potential. Individual field and prospect sizes can be material for a company of Talisman's size and new technology and higher prices have greatly expanded the opportunity set.

Piper B Platform – UK North Sea

2006 in review

In the North Sea, Talisman continued work on 11 development projects, which are expected to add substantial incremental production volumes between 2007 and 2009. The largest of these, the 45,000 boe/d Tweedsmuir development was more than 90% complete at year-end, with initial production expected in April 2007.

Talisman successfully integrated the Paladin assets from late 2005 and acquired the Fulmar and Auk fields in the UK. The Auk field has significant development potential. Talisman submitted a redevelopment plan for the Yme field in Norway early in 2007, a field that was abandoned during a period of low oil prices after having produced only 15% of the 340 mmbbls of original oil in place. Also during the year, Talisman rationalized its asset base in the UK through the divestment of non-operated interests in a number of non-core properties.

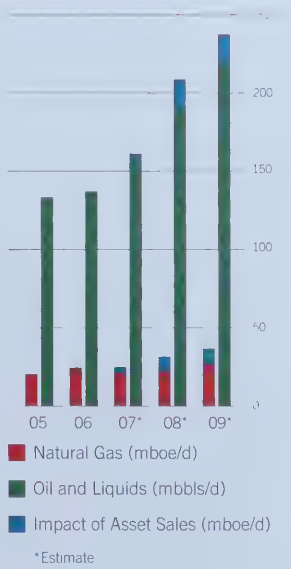
- liquids production averaged 135,216 bbls/d, up from 132,716 bbls/d in 2005, primarily due to the acquisition of Paladin assets in late 2005;
- natural gas production averaged 140 mmcf/d, an increase of 17% from 120 mmcf/d in 2005;
- exploration and development spending was $1.6 billion;
- Talisman drilled 29 successful oil and gas development wells, including wells at Clyde, Tartan, Claymore and Piper, as well as three successful exploration wells. A successful infill drilling program was also carried out in the Varg and Veslefrikk areas;
- Talisman added 100 mmboe of proved reserves and had 486 mmboe of proved reserves at year-end. The additions include 26 mmboe of proved reserves acquired through the purchase of the Auk field and 87% of the Fulmar field and a decrease of 10 mmboe through asset sales;
- operating costs averaged $18.00/boe, up from $15.54/boe in 2005, due in part to the increased cost of fuel gas and facility maintenance;
- Talisman sold interests in a number of minor properties with combined production of 9,200 boe/d (net Talisman share); and
- early in 2007, the Company also announced it had entered into an agreement to sell its interests in the Brae region (19,000 boe/d, net Talisman share). This sale is expected to be completed near the end of 2007.

2007 outlook

- production is expected to average 155,000 bbls/d of oil and liquids and 124 mmcf/d of natural gas [1];
- Tweedsmuir production is expected to come onstream with first oil in April 2007;
- first production from the Wood, Enoch and Blane fields is expected during the first half of 2007;
- development of the Rev and Yme projects in Norway is underway with first production expected in 2008 and 2009, respectively;
- exploration and development spending in the UK is expected to be approximately $1.2 billion, while exploration and development spending in Scandinavia is expected to increase 32% to approximately $440 million, as a result of increased exploration drilling and the Rev and Yme development projects; and
- Talisman plans to participate in 12 exploration wells and 41 development wells.

1 Production targets have a confidence level of +/– 5% and include the impact of planned asset sales.

Production Growth



Southeast Asia

Southeast Asia continues to be an area of opportunity and growth for Talisman. The Company operates in Indonesia, Malaysia and Vietnam.

Southeast Asia has world-class hydrocarbon basins in a region with strong economic and energy demand growth. Some areas in the region have only seen first phase exploration by the super majors, leaving room for significant opportunities. Capital and operating costs are very low and investment returns are attractive, particularly as Production Sharing Contract terms allow for quick recovery of investment capital.

South Angsi Platform offshore Malaysia/Vietnam.

2006 in review

In Southeast Asia, Talisman commenced work on the 40,000 boe/d Northern Fields development project in Malaysia/Vietnam, with first oil expected in the third quarter of 2008. In Vietnam, Talisman's first exploration well on Block 15-2/01, Hai Su Trang, was successful, testing at 14,863 bbls/d of oil.

In Indonesia, work continued on the Suban 2 gas expansion project in the Corridor PSC, including installation of two new gas trains, additional pipeline and infrastructure. The Company also participated in a gas well (Suban 10), which is currently on production at 150 mmcf/d (gross sales gas). First gas sales to West Java are expected in mid-2007.

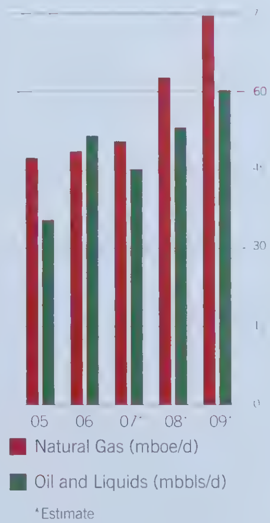
- natural gas production averaged 292 mmcf/d, an increase of 3% from 284 mmcf/d in 2005;
- liquids production averaged 51,582 bbls/d, an increase of 45% from 35,476 bbls/d;
- exploration and development spending totaled $331 million;
- Talisman drilled 31 successful oil and gas wells, including three exploration wells;
- operating costs averaged $4.47/boe, up from $2.94/boe in 2005, mainly due to increased fuel costs, an extended turnaround (weather related) and higher cost properties acquired in the Paladin transaction;
- in Malaysia, the Bunga Tulip development came onstream at 4,000 boe/d in the fourth quarter of 2006;
- the Song Doc development in Vietnam was approved and sanctioned;
- construction of a new third party pipeline to transport Corridor gas to West Java commenced;
- first sales of natural gas from Southeast Sumatra to Perusahaan Listrik Negara occurred in the second quarter of 2006; and
- a PSC on the Pasangkayu deepwater exploration block was signed in September 2006.

2007 outlook

- production is expected to average 303 mmcf/d of natural gas and 45,200 bbls/d of oil and liquids[1];
- exploration and development spending is expected to be approximately $670 million;
- Talisman plans to participate in up to 14 exploration wells and 58 development wells;
- development of the Northern Fields in PM-3 CAA will progress with first oil expected in the third quarter of 2008;
- in Vietnam, development of Song Doc will continue with first oil expected in second quarter 2008;
- in Indonesia, first gas sales to West Java are expected in mid-2007; and
- in Vietnam, three exploration wells are planned in Block 15-2/01.

1 Production targets have a confidence level of +/– 5%.

Production Growth



other international areas

Angostura Central Processing Plant offshore Trinidad and Tobago.

North Africa

In Algeria, Talisman has a 35% non-operated interest in the Greater MLN project in Block 405a, located in eastern Algeria. In addition, the Company has a 2% interest in the unitized Ourhoud Field in Algeria and 5 to 10% non-operated interests in Tunisia. Liquids production in 2006 averaged 13,193 bbls/d, a 14% decrease from 2005 production, primarily due to an extended compressor outage at MLN.

In 2006, the Greater MLN Phase 2 project continued, with full gas injection expected in late 2007. During the year, the Company also continued planning for development of the EMK-TAGI field in the southern portion of Block 405a. First oil from the EMK project is expected in 2010.

In Tunisia, Talisman participated in two exploration wells, which were both successful in January 2007. The Company also entered into an agreement to farm-in to the prospective El Hamra Block in Tunisia.

Exploration and development spending in 2006 totaled $74 million. In 2007, spending is expected to be about $60 million, which includes drilling up to five exploration wells, 19 development wells and sanction of the EMK project.

In 2006, the Greater MLN Phase 2 project continued with full gas injection expected in late 2007.

Trinidad and Tobago

Talisman has a 25% non-operated interest in the Greater Angostura project, an oil and gas development in Block 2(c) offshore Trinidad and Tobago. Development continued in 2006 with the drilling of four additional wells. Liquids production in 2006 averaged 8,366 bbls/d, compared to 10,111 bbls/d in 2005, due in part to a mechanical failure in late November.

Offshore on Block 3a, the Kingbird exploration well was successful. A subsequent well, Ruby-1, was also successful, testing at approximately 5,000 bbls/d of oil. On the onshore Eastern Block, three exploration wells were plugged and abandoned.

Exploration and development spending in 2006 totaled $84 million. In 2007, spending is expected to be $65 million, which includes drilling up to seven exploration and four development wells.

In Trinidad and Tobago, the Ruby-1 well was successful, testing at approximately 5,000 bbls/d of oil.

Latin America

In Colombia, Talisman has non-operated interests in a number of blocks. Talisman was successful in bidding for the Niscota exploration block in the Llanos overthrust belt. Capital spending in 2007 is expected to be $17 million.

In Peru, Talisman has a 100% operated interest in Block 101, pending government approval, and a 25% non-operated interest in Block 64. Capital spending in 2007 is expected to be $9 million for seismic acquisition.

Qatar

Talisman holds a 100% interest in Block 10 offshore Qatar. During 2006, the Company drilled an unsuccessful well on the block. In 2007, Talisman plans to spend $25 million in order to drill up to two additional exploration wells.

an experienced management team

(back row left to right)

Philip D. Dolan
Vice-President, Finance and Chief Financial Officer

Ronald J. Eckhardt
Executive Vice-President, North American Operations

Robert M. Redgate
Executive Vice-President, Corporate Services

John 't Hart
Executive Vice-President, Exploration

A. Paul Blakeley
Executive Vice-President, International Operations (East)

T. Nigel D. Hares
Executive Vice-President, International Operations (West)

(front row left to right)

M. Jacqueline Sheppard
Executive Vice-President, Corporate and Legal and Corporate Secretary

James W. Buckee
President and Chief Executive Officer

strategy

Talisman's mission is to create value for its shareholders, with a focus on growing reserves, production and cash flow per share[1]. Our primary measure is production per share, with a target of 5 to 10% annual growth.

Energy is a vital business and demand will continue to increase with global population and economic growth. Oil and natural gas account for approximately 60% of global energy consumption and will continue to be the main sources for decades to come. Oil and natural gas are non-renewable resources and it is our belief that the higher prices seen in recent years are required to ration demand and bring on new supplies.

Talisman is predominantly an upstream oil and gas company and this is where our expertise lies. Skills and knowledge are transferable between oil and gas operations around the world. We believe that successful exploration and development create the most value for our shareholders.

We have a diverse set of operations and opportunities. We are the leading deep gas explorer in Western Canada as well as a leading independent operator in the North Sea. Our portfolio of oil and gas assets in a number of proven hydrocarbon basins lessens risk and provides us with a large opportunity set for a company of our size. Our international assets and expertise allow Talisman to continue to find large, high value, international opportunities.

We operate the majority of our production and maintain relatively high working interests. This enables us to have a measure of control over projects, timing and costs. In addition, the Company pursues a number of high impact exploration opportunities, typically directing 5 to 10% of overall capital spending to these ventures.

1 Non-GAAP measure. See advisories on page 36

corporate governance and corporate responsibility

Talisman's commitment to corporate governance and corporate responsibility contributes to the creation of long-term value for our shareholders.

responsibilities of the board of directors

Talisman's Board of Directors sees its principal role as stewardship of the Company and its fundamental objective as the creation of shareholder value, including the protection and enhancement of the value of the Company's assets. The Board oversees the conduct of the business and management, which, in turn, is responsible for developing long-term strategy and conducting the Company's day-to-day business.

Among its duties, the Board ensures systems are in place to manage the risks and, through the Chief Executive Officer, sets the attitude and disposition of the Company toward regulatory compliance, environmental, health and safety policies, and financial practices and reporting.

independence of the board and board committees

All of Talisman's directors, except for the President and Chief Executive Officer, are independent. Talisman's Board has appropriate structures in place to ensure that the Board can function independently of management. All committees of the Talisman Board are composed entirely of independent directors, with the exception of the Executive Committee and the Pension Funds Committee, the majority of whose members are independent.

All of Talisman's directors, except for the President and Chief Executive Officer, are independent.

The roles of the Chairman of the Board and the Chief Executive Officer have been split since 1993 and Douglas D. Baldwin, the Chairman of the Board, is an independent director. The terms of reference for the Board, each Board Committee, the Chief Executive Officer and the Chairman of the Board have been in place since 1995 and are regularly reviewed and updated to reflect new legislation, refinements in roles and responsibilities and best practices.

board and director effectiveness

The ability of any board of directors to carry out its mandate and statutory obligations is contingent on maintaining an effective board and on recruiting and retaining effective directors. To ensure continuing effectiveness, assessments of the Board, its Committees and individual directors (including special assessments of the Chairman of the Board and Committee Chairs) are conducted on an annual basis.

To ensure continuing effectiveness, assessments of the Board, its Committees, and individual directors are conducted on an annual basis.

The Board's ongoing succession and recruitment processes are also designed to ensure the continuing effectiveness of the Board and its Committees. To assist in the director selection process, the Governance and Nominating Committee has created a profile of ideal characteristics and qualifications of new nominees, which takes into account the Company's governance framework and current Board composition. In 2006, the Governance and Nominating Committee updated its profile of all current directors' experience and qualifications to assist in succession planning. The Governance and Nominating Committee also reviewed the Board Succession Policy in detail, and considered it against various governance principles, including mandatory retirement ages and term limits for directors.

stock exchange and regulatory compliance

Talisman's corporate governance practices satisfy all the existing guidelines for effective corporate governance established by National Instrument 58-101 and National Policy 58-201.

Talisman's corporate governance practices satisfy all the existing guidelines for effective corporate governance established by National Instrument 58-101 and National Policy 58-201 (collectively, CSA Rules), all of the NYSE corporate governance listing standards applicable to non-US companies and substantially all of the NYSE corporate governance listing standards applicable to US companies.

With respect to the NYSE corporate governance listing standards, Talisman's corporate governance practices differ in only three aspects from those applicable to US companies.

- First, the NYSE listing standards require that the Audit Committee charter specify that the Audit Committee assist the Board of Directors in its oversight of Talisman's compliance with legal and regulatory requirements. Talisman's Board oversees Talisman's compliance with legal and regulatory requirements and this responsibility specifically forms part of the Board's Terms of Reference. Each of the Board committees assists the Board in its oversight of Talisman's compliance with legal and regulatory requirements in each of their areas of responsibility.
- Second, the NYSE listing standards require shareholder approval of all equity compensation plans and any material revisions to such plans, regardless of whether the securities to be delivered under such plans are newly issued or purchased on the open market, subject to a few limited exceptions. In contrast, the TSX rules require shareholder approval of equity compensation plans only when such plans involve newly issued securities. Equity compensation plans that do not provide for a fixed maximum number of securities to be issued must have a rolling maximum number of securities to be issued, based on a fixed percentage of the issuer's outstanding securities, and must also be approved by shareholders every three years. If the plan provides a procedure for its amendment, the TSX rules require shareholder approval of amendments only where the amendment involves a reduction in the exercise price or an extension of the term of options held by insiders.

- Finally, the NYSE listing standards require that any waivers of a company's code of business conduct and ethics for directors or executive officers be promptly disclosed. Talisman complies with the requirements of the CSA Rules, which specify that material departures from the Company's Policy on Business Conduct and Ethics (PBCE) by a director or executive officer that constitute a material change to Talisman will be promptly disclosed to shareholders.

corporate responsibility – beyond regulatory compliance

The foundational governance structures listed above have allowed Talisman to move beyond traditional indicators of good governance into industry-leading practices in corporate responsibility. Talisman integrates its corporate responsibility initiatives into its day-to-day oil and gas operations and decision making activities. The Company recognizes corporate responsibility as a tool that helps the Company manage risks, including maintaining its social licence to operate, its employee recruitment and retention efforts and the need for access to capital. Talisman's global corporate responsibility framework includes the following:

- **Policy on Business Conduct and Ethics** Since being formed as an independent company in 1992, Talisman has maintained and updated its PBCE. This policy is a statement of principles to which Talisman is committed and is designed to direct all employees, officers and directors of Talisman and its subsidiaries in determining ethical business conduct.
- **Annual compliance certificate process for PBCE** All employees of Talisman worldwide and its directors are required on an annual basis, to complete a certificate certifying compliance with the PBCE.
- **Online ethics training** In 2005, Talisman internally developed and launched an online ethics training program, which all employees worldwide are required to complete biennially.
- **Risk assessments** Multi-departmental risk assessments, both technical and non-technical, are completed for new investments or new country entries.
- **Security Policy** The objectives of the Security Policy are to assist Talisman in creating a safe work environment for its employees and assets, to assist the Company in promoting respect for human rights and advancing best practices with governments, joint venture participants and third parties. One of the most fundamental principles in the Security Policy obligates Talisman to conduct itself in accordance with the Voluntary Principles on Security and Human Rights.
- **Incorporation of Security Policy in international operating agreements** In accordance with the Company's joint operating agreement (JOA) guidelines, Talisman endeavours to include our Environmental and Community Relations guidelines and a commitment to the Talisman Security Policy or the Voluntary Principles on Security and Human Rights in all new international JOAs (outside the UK).

Talisman believes that investing in the communities where we live and work supports our business. In 2006, Talisman invested more than $6 million in community development initiatives globally. Talisman (Vietnam) sponsored the Asia Injury Foundation's "Helmets for Kids Program" in Ho Chi Minh City.

Talisman integrates its corporate responsibility initiatives into its day-to-day oil and gas operations and decision making activities.

To request a copy of Talisman's 2006 Corporate Responsibility Report or Summary Report, please visit our website at **www.talisman-energy.com**

- **Adoption of EITI and Global Compact** Talisman participates in global multi-stakeholder initiatives such as the Global Compact and the Extractive Industries Transparency Initiative to learn from and share information with a broad spectrum of stakeholders.
- **Stakeholder and community consultations** Talisman regularly solicits community, NGO and government feedback on potential risks associated with a project before commencing operations or entering into contractual arrangements.
- **Third party verifications** Annual third party verified reporting of corporate responsibility initiatives and impacts are undertaken.

Talisman's 2006 corporate responsibility report – "risky business"

Since 2000, Talisman has annually prepared a Corporate Responsibility Report for its global stakeholders. These third-party verified reports detail Talisman's corporate responsibility initiatives and impacts, helping stakeholders better understand and evaluate the Company's corporate responsibility performance.

Talisman's Corporate Responsibility Reports enhance transparency, ensure accountability, engage stakeholders and help improve the Company's social and environmental performance.

"Risky business" addresses the most significant corporate responsibility-related risks the Company faced in 2006 and describes how the Company managed them.

additional information

For more information on Talisman's corporate governance and corporate responsibility initiatives, please see the following documents, which are posted at **www.talisman-energy.com**:

- Talisman's corporate governance statement, which appears as Schedule A to Talisman's Management Proxy Circular dated March 13, 2007;
- Terms of reference of the Board and each of its Committees; and
- Talisman's 2006 Corporate Responsibility Report.

Each of the above documents is available in print to any shareholder upon request.

consolidated balance sheets (unaudited)

All financial data should be read in conjunction with the audited Consolidated Financial Statements of the Company contained in the 2006 Annual Financial Report.

December 31 (millions of C$)	2006	2005 (restated)
Assets		
Current		
Cash and cash equivalents	103	145
Accounts receivable	1,136	1,219
Inventories	368	170
Prepaid expenses	25	20
Assets of discontinued operations	443	793
	2,075	2,347
Accrued employee pension benefit asset	50	57
Other assets	102	74
Goodwill	1,543	1,434
Property, plant and equipment	17,691	14,196
Assets of discontinued operations	–	246
	19,386	16,007
Total assets	21,461	18,354
Liabilities		
Current		
Bank indebtedness	39	15
Accounts payable and accrued liabilities	2,477	2,336
Income and other taxes payable	412	649
Liabilities of discontinued operations	235	238
	3,163	3,238
Deferred credits	59	74
Asset retirement obligations	1,865	1,223
Other long-term obligations	157	216
Long-term debt	4,560	4,263
Future income taxes	4,350	3,367
Liabilities of discontinued operations	–	178
	10,991	9,321
Non-controlling interest	–	66
Shareholders' equity		
Common shares	2,533	2,609
Contributed surplus	67	69
Cumulative foreign currency translation	122	(265)
Retained earnings	4,585	3,316
	7,307	5,729
Total liabilities and shareholders' equity	21,461	18,354

The prior year numbers have been restated to reflect the results of discontinued operations and the treatment of bank indebtedness.

Talisman's 2006 Annual Financial Report contains the detailed Management's Discussion and Analysis, Consolidated Financial Statements and Notes, and Supplementary Information and can be obtained from the Company or viewed online at **www.talisman-energy.com**.

consolidated statements of income (unaudited)

All financial data should be read in conjunction with the audited Consolidated Financial Statements of the Company contained in the 2006 Annual Financial Report.

Years ended December 31 (millions of C$ unless otherwise indicated)	2006	2005 (restated)	2004 (restated)
Revenue			
Gross sales	9,362	8,888	6,299
Less hedging (gain) loss	(66)	77	480
Gross sales, net of hedging	9,428	8,811	5,819
Less royalties	1,603	1,516	1,059
Net sales	7,825	7,295	4,760
Other	119	112	80
Total revenue	7,944	7,407	4,840
Expenses			
Operating	1,651	1,338	1,091
Transportation	207	185	174
General and administrative	233	201	183
Depreciation, depletion and amortization	2,005	1,689	1,479
Dry hole	296	241	311
Exploration	318	275	238
Interest on long-term debt	166	163	173
Stock-based compensation	51	633	171
Other	(29)	39	89
Total expenses	4,898	4,764	3,909
Income from continuing operations before taxes	3,046	2,643	931
Taxes			
Current income tax	752	978	427
Future income tax (recovery)	552	127	(143)
Petroleum revenue tax	290	184	128
	1,594	1,289	412
Net income from continuing operations	1,452	1,354	519
Net income from discontinued operations	553	207	135
Net income	2,005	1,561	654
Per common share (C$)			
Net income from continuing operations	1.33	1.23	0.45
Diluted net income from continuing operations	1.29	1.20	0.44
Net income from discontinued operations	0.51	0.18	0.12
Diluted net income from discontinued operations	0.50	0.18	0.12
Net income	1.84	1.41	0.57
Diluted net income	1.79	1.38	0.56
Average number of common shares outstanding (millions)	1,092	1,104	1,149
Diluted number of common shares outstanding (millions)	1,122	1,131	1,170

Prior years have been restated to reflect the results of discontinued operations.

consolidated statements of cash flows (unaudited)

All financial data should be read in conjunction with the audited Consolidated Financial Statements of the Company contained in the 2006 Annual Financial Report.

Years ended December 31 (millions of C$)	2006	2005 (restated)	2004 (restated)
Operating			
Net income from continuing operations	**1,452**	1,354	519
Items not involving cash	**2,690**	2,631	1,820
Exploration	**318**	275	238
	4,460	4,260	2,577
Changes in non-cash working capital	**(374)**	199	203
Cash provided by continuing operations	**4,086**	4,459	2,780
Cash provided by discontinued operations	**288**	412	339
Cash provided by operating activities	**4,374**	4,871	3,119
Investing			
Corporate acquisitions	**(66)**	(2,549)	–
Capital expenditures			
Exploration, development and corporate	**(4,576)**	(3,159)	(2,498)
Acquisitions	**(201)**	(260)	(317)
Proceeds of resource property dispositions	**112**	17	75
Changes in non-cash working capital	**246**	138	50
Discontinued operations	**715**	(331)	(67)
Cash used in investing activities	**(3,770)**	(6,144)	(2,757)
Financing			
Long-term debt repaid	**(4,570)**	(1,294)	(1,069)
Long-term debt issued	**4,786**	3,129	912
Common shares purchased	**(656)**	(352)	(284)
Common share dividends	**(163)**	(125)	(114)
Deferred credits and other	**(77)**	(9)	164
Changes in non-cash working capital	**–**	(3)	(10)
Cash provided by (used in) financing activities	**(680)**	1,346	(401)
Effect of translation on foreign currency cash and cash equivalents	**10**	19	(21)
Net (decrease) increase in cash and cash equivalents	**(66)**	92	(60)
Cash and cash equivalents net of bank indebtedness, beginning of year	**130**	38	98
Cash and cash equivalents net of bank indebtedness, end of year	**64**	130	38

Prior years have been restated to reflect the results of discontinued operations.

historical financial summary

All financial data should be read in conjunction with the audited Consolidated Financial Statements of the Company contained in the 2006 Annual Financial Report.

Years ended December 31 (millions of C$)	**2006**[1]	2005[1]	2004[1]	2003	2002	2001	2000	1999	1998	1997
Balance sheets										
Total assets	**21,461**	18,354	12,408	11,780	12,020	11,234	9,037	8,198	5,556	5,195
Income statements										
Total revenue	**7,944**	7,407	4,840	4,598	4,579	4,140	3,989	1,975	1,371	1,430
Total expenses	**4,898**	4,764	3,909	3,650	3,523	2,886	2,462	1,529	1,751	1,239
Gain on sale of Sudan operations	**–**	–	–	296	–	–	–	–	–	–
Income (loss) before taxes	**3,046**	2,643	931	1,244	1,056	1,254	1,527	446	(380)	191
Taxes										
Current income tax	**752**	978	427	229	258	342	334	49	15	38
Future income tax (recovery)	**552**	127	(143)	(53)	157	60	194	107	(93)	64
Petroleum revenue tax	**290**	184	128	92	124	149	150	31	20	32
	1,594	1,289	412	268	539	551	678	187	(58)	134
Net income (loss) from continuing operations	**1,452**	1,354	519	976	517	703	849	259	(322)	57
Net income from discontinued operations	**553**	207	135	–	–	–	–	–	–	–
Net Income (loss)	**2,005**	1,561	654	976	517	703	849	259	(322)	57

1 Adjusted for discontinued operations.

historical operations summary

Years ended December 31	**2006**	2005	2004	2003	2002	2001	2000	1999	1998	1997
Daily average production[1]										
Total oil and liquids (bbls/d)	**261,635**	249,984	228,434	216,716	272,740	251,014	244,351	158,323	146,749	130,177
Total natural gas (mmcf/d)	**1,342**	1,319	1,259	1,090	1,036	1,010	988	904	748	658
Total (mboe/d)	**485**	470	438	398	445	419	409	309	271	240
Production (boe/share)[2]	**0.162**	0.155	0.139	0.125	0.135	0.126	0.121	0.101	0.098	0.089
Proved reserves (boe/share)[2]	**1.57**	1.49	1.32	1.18	1.26	1.24	0.97	0.88	0.83	0.75

1 Production includes production for continuing and discontinued operations.

2 Prior years' per common share numbers have been adjusted to reflect the three-for-one share split, which was effected in May 2006.

ratios and key indicators

Years ended December 31 (millions of C$ except where indicated)	**2006**	2005	2004	2003	2002	2001	2000	1999	1998	1997
Net income (loss)	**2,005**	1,561	654	976	517	703	849	259	(322)	57
Cash flow [1]	**4,748**	4,672	2,916	2,691	2,603	2,425	2,356	1,098	631	797
Exploration and development spending	**4,578**	3,179	2,538	2,180	1,848	1,882	1,179	996	1,145	951
Acquisitions	**204**	3,170	330	768	276	1,624	431	1,692	343	731
Dispositions	**872**	22	88	1,112	72	162	81	133	157	71
Debt/debt+equity (%)	**38**	43	34	36	46	48	41	45	50	45
Debt/cash flow (times)	**1.0**	0.9	0.8	1.0	1.3	1.4	1.0	2.4	3.3	2.2
Per common share (dollars) [2]										
Net income (loss)	**1.84**	1.41	0.57	0.84	0.43	0.58	0.68	0.23	(0.32)	0.06
Cash flow [1]	**4.35**	4.23	2.54	2.32	2.16	2.00	1.90	0.98	0.63	0.81
Average royalty rate (%)	**17**	17	16	16	17	20	18	16	14	18
Unit operating costs ($/boe)	**9.98**	8.41	7.26	6.98	6.14	5.79	5.19	5.14	5.61	5.24
Unit DD&A ($/boe)	**12.09**	10.88	10.29	9.87	8.99	8.39	7.37	7.54	6.03	6.08

All data includes continuing and discontinued operations.

1 Non-GAAP measure. See advisories on page 36.

2 Prior years' per common share numbers have been adjusted to reflect the three-for-one share split, which was effected in May 2006.

Historical Share Price Growth

(percentage change from January 1, 1992)

— Talisman Common Shares (TSX)

— Dow Jones Industrial Average (US$)

— S&P/TSX Composite Index

additional information

reconciliation of accounting principles

Talisman's Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) which, in most respects, conform to accounting principles generally accepted in the United States (US GAAP). A summary of the significant differences between Canadian and US GAAP follows. Additional information regarding US GAAP differences is contained in note 20 to the Company's audited Consolidated Financial Statements contained in the 2006 Annual Financial Report.

net income in accordance with US GAAP

Years ended December 31 (millions of C$ unless otherwise stated)	**2006**	2005	2004
Net income from continuing operations – Canadian GAAP	**1,452**	1,354	519
Reconciling items between Canadian GAAP and US GAAP	**(76)**	(65)	40
Income from continuing operations	**1,376**	1,289	559
Income from discontinued operations	**553**	207	135
Income before cumulative effect of changes in accounting principles	**1,929**	1,496	694
Cumulative effect of changes in accounting principles, net of tax	**(9)**	–	–
Net income – US GAAP	**1,920**	1,496	694
Net income per common share (C$) [1]			
Basic	**1.76**	1.36	0.60
Diluted	**1.71**	1.32	0.59

1 Prior years' per common share numbers have been adjusted to reflect the three-for-one share split, which was effected in May 2006.

comprehensive income in accordance with US GAAP

Years ended December 31 (millions of C$)	**2006**	2005	2004
Net income – US GAAP	**1,920**	1,496	694
Other comprehensive income			
Unrealized foreign exchange gain on translation of self-sustaining operations	**179**	40	288
Minimum pension liability, net of tax	**–**	(8)	–
Unrealized change in fair value of financial instruments, net of tax	**92**	(20)	(40)
Comprehensive income – US GAAP	**2,191**	1,508	942

All financial data should be read in conjunction with the audited Consolidated Financial Statements of the Company contained in the 2006 Annual Financial Report.

additional information (continued)

balance sheet items in accordance with US GAAP follows:

December 31 (millions of C$)	2006 Canadian GAAP	2006 US GAAP	2005 Canadian GAAP	2005 US GAAP
Total liabilities and shareholders' equity	**21,461**	**21,728**	18,354	18,551

All financial data should be read in conjunction with the audited Consolidated Financial Statements of the Company contained in the 2006 Annual Financial Report.

net production (after royalties)

	2006	2005	2004	2003	2002
Crude oil and liquids (bbls/d)					
North America	**39,382**	42,613	43,303	45,035	47,182
United Kingdom [1]	**101,682**	105,582	114,906	110,580	122,231
Scandinavia [2]	**32,327**	25,676	5,862	2,711	–
Southeast Asia [3]	**29,211**	21,406	20,884	14,853	14,025
Other					
North Africa [4]	**7,674**	9,449	8,338	3,351	–
Sudan	**–**	–	–	6,997	36,346
Trinidad and Tobago	**7,142**	8,545	–	–	–
Total oil and liquids	**217,418**	213,271	193,293	183,527	219,784
Natural gas (mmcf/d)					
North America	**744**	733	715	678	665
United Kingdom [1]	**119**	103	102	102	107
Scandinavia [2]	**14**	9	3	1	–
Southeast Asia [3]	**214**	198	194	110	89
Total natural gas	**1,091**	1,043	1,014	891	861
Total conventional (mboe/d)	**399**	387	362	332	363
Synthetic oil (Canada) (mbbls/d) [5]	**3.0**	2.6	2.9	2.5	2.8
Total (mboe/d)	**402**	390	365	335	366

1 United Kingdom includes the UK and the Netherlands.
2 Scandinavia includes Denmark from 2005.
3 Southeast Asia includes Indonesia, Malaysia/Vietnam and from 2005, Australia.
4 North Africa includes production from Algeria and from 2005, Tunisia.
5 Talisman sold its indirect interest in Syncrude on January 2, 2007.

market information

common shares [1]

		2006 TSX (C$)	2006 NYSE (US$)	2005 TSX (C$)	2005 NYSE (US$)	2004 TSX (C$)	2004 NYSE (US$)
Share price ($)	High	**24.84**	**21.62**	20.83	18.08	11.70	9.55
	Low	**16.12**	**14.21**	10.50	8.36	7.84	5.88
	Close	**19.80**	**16.99**	20.53	17.63	10.78	8.99
Shares traded (millions)	First quarter	**304.9**	**247.4**	298.2	107.7	258.6	70.2
	Second quarter	**291.4**	**211.9**	270.6	118.2	245.7	82.2
	Third quarter	**300.7**	**146.9**	278.1	125.7	243.9	57.6
	Fourth quarter	**290.6**	**174.1**	300.3	153.6	299.7	62.1
	Year	**1,187.6**	**780.3**	1,147.2	505.2	1,047.9	272.1
Year-end shares outstanding (millions)		**1,064**		1,099		1,126	
Weighted average shares outstanding (millions)		**1,092**		1,104		1,149	
Year-end stock options outstanding (millions)		**63.9**		64.5		62.4	

1 Prior years have been adjusted to reflect the three-for-one share split, which was effected in May 2006

directors and executives

board of directors

Douglas D. Baldwin [2,3,4,6]
Chairman, Talisman Energy Inc.
Alberta, Canada

James W. Buckee [2,5]
President and Chief Executive Officer, Talisman Energy Inc.
Alberta, Canada

William R. P. Dalton [1,5]
Corporate Director
Arizona, United States

Kevin S. Dunne [3,5,6]
Corporate Director
British Virgin Islands

Lawrence G. Tapp [1,4]
Chairman, ATS Automation Tooling Systems Inc.
British Columbia, Canada

Stella M. Thompson [2,4,5]
Principal, Governance West Inc., President, Stellar Energy Ltd.
Alberta, Canada

Robert G. Welty [1,3]
Chairman and Director, Sterling Resources Ltd.
Alberta, Canada

Charles R. Williamson [3,4]
Corporate Director
California, United States

Charles W. Wilson [1,2,6]
Corporate Director
Colorado, United States

executives

James W. Buckee President and Chief Executive Officer

A. Paul Blakeley Executive Vice-President, International Operations (East)

Philip D. Dolan Vice-President, Finance and Chief Financial Officer

Ronald J. Eckhardt Executive Vice-President, North American Operations

T. Nigel D. Hares Executive Vice-President, International Operations (West)

Robert M. Redgate Executive Vice-President, Corporate Services

M. Jacqueline Sheppard Executive Vice-President, Corporate and Legal, and Corporate Secretary

John 't Hart Executive Vice-President, Exploration

1 Member of Audit Committee
2 Member of Executive Committee
3 Member of Governance and Nominating Committee
4 Member of Management Succession and Compensation Committee
5 Member of Pension Funds Committee
6 Member of Reserves Committee Corporate Information

corporate information

executive office

Talisman Energy Inc. 3400, 888 – 3rd Street SW
Calgary, Alberta, Canada T2P 5C5
Telephone: (403) 237-1234 Facsimile: (403) 237-1902
Website: **www.talisman-energy.com**
E-mail: tlm@talisman-energy.com

select field offices

Talisman Energy (UK) Limited Talisman House, 163 Holburn Street,
Aberdeen, Scotland, United Kingdom AB10 6BZ
Telephone: 44 (1224) 352-500 Facsimile: 44 (1224) 354-300

Talisman Energy Norge A.S. Verven 4, 4 Etasje, Norway
Telephone: 47 (5200) 2000 Facsimile: 47 (5200) 1500

Goal Petroleum (Netherlands) B.V. Atrium Bldg c/o Regus Centre,
Strawinskylaan 3159, Amsterdam, The Netherlands 1077ZX
Telephone: 31 (20) 540-8840 Facsimile: 31 (20) 540-8854

Talisman Energy (Qatar) Inc. Box 22630, Suite 2-1,
Al Jaber Tower, Museum Street, Doha, Qatar
Telephone: (974) 435-1815 Facsimile: (974) 435-0980

Talisman (Asia) Limited Setiabudi Atrium Office, Suite 402,
Jl. HR Rasuna Said kav. 62-Kuningan, Jakarta 12920, Indonesia
Telephone: 62 (21) 521-0650 Facsimile: 62 (21) 521-0660

Talisman Malaysia Limited Level 31, Menara Citibank,
165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia
Telephone: (603) 2055-2888 Facsimile: (603) 2162-6972

Talisman Vietnam Limited Landmark Building, Unit 703,
5B Ton Duc Thang St, Dist. 3, Ho Chi Minh City, Vietnam
Telephone: (848) 823-8232 Facsimile: (848) 823-8237

Fortuna Energy Inc. 203 Colonial Drive, Suite 101,
Horseheads, New York, USA 14845
Telephone: (607) 795-1040 Facsimile: (607) 795-1041

Fortuna Exploration 3601 C Street, Suite 370,
Anchorage, Alaska, USA 33503
Telephone: (907) 644-4429 Facsimile: (907) 644-4892

Talisman (Trinidad) Petroleum Ltd. 9th Floor, Albion Plaza Energy Centre,
22-24 Victoria Avenue, Port of Spain, Trinidad, West Indies
Telephone: (868) 625-1515 Facsimile: (868) 624-7999

investor relations contacts

M. Jacqueline Sheppard Executive Vice-President, Corporate and Legal, and Corporate Secretary (403) 237-1183
David W. Mann Senior Manager, Corporate and Investor Communications (403) 237-1196
Christopher LeGallais Senior Manager, Investor Relations (403) 237-1957

investor information

common shares

Transfer agent

Computershare Investor Services Inc.
Calgary, Toronto, Montreal, Vancouver

Co-transfer agent

Computershare Trust Company N.A.

Authorized

Unlimited number of common shares and unlimited number of first and second preferred shares

Issued

1,063,928,405 common shares at December 31, 2006

stock exchange listings

Common shares

Symbol: TLM
Canada: Toronto Stock Exchange
United States: New York Stock Exchange

public debt

Trustee

Computershare Trust Company of Canada
7.125% (US$) unsecured debentures
7.25% (US$) unsecured debentures
8.06% unsecured medium term notes
4.44% unsecured medium term notes

Trustee

JP Morgan Chase, London Branch
6.625% (£) unsecured notes

Trustee

Bank of Nova Scotia Trust Company of New York
5.125% (US$) unsecured notes
5.75% (US$) unsecured notes
5.85% (US$) unsecured notes
6.25% (US$) unsecured notes

Talisman is currently rated as
DBRS – BBB (high) (Stable)
Moody's – Baa2 (Stable)
S&P – BBB+ (negative outlook)

private debt

6.89% (US$) unsecured notes, Series B
6.68% (US$) unsecured notes

dividends

In 2006, the Company paid dividends on Talisman's common shares totaling $0.15 per share. The dividends were paid on June 30 and December 29, 2006. Talisman's dividend policy is subject to review semi-annually by the Board of Directors.

Talisman confirms that all dividends paid to shareholders in 2006 are 'eligible dividends' pursuant to recently enacted provisions of the Income Tax Act (Canada). Furthermore, all dividends to be paid in 2007 and subsequent years will be eligible dividends under such provisions.

Over the last three-year period, Talisman paid semi-annual dividends on its common shares[1], totaling $0.10/share in 2004, $0.11/share in 2005 and $0.15/share in 2006.

1 All per share amounts have been adjusted to reflect the Company's three-for-one share split, which was effected in May 2006

advisories

forward-looking statements

This Annual Report Summary contains statements that constitute forward-looking statements or forward-looking information (collectively 'forward-looking statements') within the meaning of applicable securities legislation.

Forward-looking statements are included throughout this Annual Report Summary, including among other places, under the headings '2006 Year in Review', '2007 Outlook', 'Discussion with Dr. Jim Buckee', 'North America', 'North Sea', 'Southeast Asia' and 'Other International Areas'. These statements include, among others, statements regarding:

- anticipated cash flow and cash flow per share;
- estimates of future sales, production, production growth, production per share and operations or financial performance;
- business plans for drilling, exploration and development;
- the estimated amounts and timing of capital expenditures;
- estimates of operating costs;
- business strategy and plans or budgets;
- outlook for oil and gas prices;
- anticipated liquidity, capital resources and debt levels;
- the estimated timing of and results of new development, including new production;
- the anticipated schedule for completion of pipelines;
- planned asset dispositions;
- royalty rates and exchange rates; and
- other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations or performance.

Often, but not always, forward-looking statements use words or phrases such as: 'expects', 'does not expect' or 'is expected', 'anticipates' or 'does not anticipate', 'plans' or 'planned', 'estimates' or 'estimated', 'projects' or 'projected', 'forecasts' or 'forecasted', 'believes', 'intends', 'likely', 'possible', 'probable', 'scheduled', 'positioned', 'goal', 'objective' or state that certain actions, events or results 'may', 'could', 'would', 'might' or 'will' be taken, occur or be achieved.

Various assumptions were used in drawing the conclusions or making the forecasts and projections contained in the forward-looking statements throughout this Annual Report Summary. Statements that discuss business plans for drilling, exploration and development in 2007 assume that the extraction of crude oil, natural gas and natural gas liquids remains economic. For the purposes of preparing this Annual Report Summary, Talisman assumed a US$65/bbl West Texas Intermediate oil price, a US$7.50/mmbtu NYMEX natural gas price, a US$/C$ exchange rate of $0.90 and a C$/£ exchange rate of $2.05 in 2007.

This Annual Report Summary also discusses anticipated cash flow (both on an aggregate and per share basis). The material assumptions used in determining estimates of cash flow are the anticipated production volumes; estimates of realized sales prices, which are, in turn, driven by benchmark prices, quality differentials and the impact of exchange rates; estimated royalty rates; estimated operating expenses; estimated transportation expenses; estimated general and administrative expenses; estimated interest expense, including the level of capitalized interest; anticipated cash payments made by the Company upon surrender of outstanding stock options using the cash payment feature, which, in turn, are dependent on the trading level of the Company's common shares and the number of stock options surrendered or exercised; and the anticipated amount of cash income tax and petroleum revenue tax.

Forecast production volumes are based on the midpoint of the estimated production range. Statements regarding estimated future production and production growth, as well as estimated financial results that are derived from or depend upon future production estimates (such as cash flow and cash provided by operating activities), incorporate the estimated impact of the sale of the Company's indirect Syncrude interest which was completed on January 2, 2007, the anticipated completion of the UK Brae asset sale and the non-core asset disposition program in Canada. The completion of any contemplated asset acquisitions or dispositions is contingent on various factors, including favourable market conditions, the ability of the Company to negotiate acceptable terms of sale and receipt of any required approvals for such dispositions. The amount of taxes and cash payments made upon surrender of existing stock options is inherently difficult to predict.

Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated by Talisman and described in the forward-looking statements. These risks and uncertainties include:

- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas, and market demand, including unpredictable facilities outages;
- risks and uncertainties involving geology of oil and gas deposits;
- the uncertainty of reserves estimates and reserves life and underlying reservoir risk;
- the uncertainty of estimates and projections relating to production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- the outcome and effects of completed acquisitions, as well as any future acquisitions and dispositions;
- the ability of the Company to integrate any assets it has acquired or may acquire or the performance of those assets;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing and changes in capital markets;
- uncertainties related to the litigation process, such as possible discovery of new evidence or acceptance of novel legal theories and difficulties in predicting the decisions of judges and juries;
- risks in conducting foreign operations (for example, political and fiscal instability or the possibility of civil unrest or military action);
- competitive actions of other companies, including increased competition from other oil and gas companies and companies providing alternative sources of energy;
- changes in general economic and business conditions;
- the effect of acts of, or actions against, international terrorism;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;
- results of the Company's risk mitigation strategies, including insurance and any hedging programs; and
- the Company's ability to implement its business strategy.

We caution that the foregoing list of risks and uncertainties is not exhaustive. Additional information on these and other factors that could affect the Company's operations or financial results are included: (1) under the heading 'Risk Factors' in the Company's Annual Information Form; and (2) under the headings 'Risk Factors', 'Segmented Results Review of Continuing Operations' and 'Sensitivities' in the Management's Discussion and Analysis and elsewhere in the Company's 2006 Annual Financial Report. Additional information may also be found in the Company's other reports on file with Canadian securities regulatory authorities and the US Securities and Exchange Commission (SEC).

Forward-looking statements are based on the estimates and opinions of the Company's management at the time the statements are made. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change, except as required by law.

reserves data and other oil and gas information

Talisman's disclosure of reserves data and other oil and gas information is made in reliance on an exemption granted to Talisman by Canadian securities regulatory authorities, which permits Talisman to provide disclosure in accordance with US disclosure requirements. The information provided by Talisman may differ from the corresponding information prepared in accordance with Canadian disclosure standards under National Instrument 51-101 (NI 51-101). Talisman's proved reserves have been calculated using the standards contained in Regulation S-X of the SEC. US practice is to disclose net proved reserves after deduction of estimated royalty burdens, including net profits interests. Talisman makes additional voluntary disclosure of gross proved reserves. Probable reserves, which Talisman also discloses voluntarily, have been

calculated using the definition of probable reserves set out by the Society of Petroleum Engineers/World Petroleum Congress ('SFE/WPC'). Talisman's estimates of proved reserves and probable reserves are based on the same price assumptions. Further information on the differences between the US requirements and the NI 51-101 requirements is set forth under the heading 'Note Regarding Reserves Data and Other Oil and Gas Information' in Talisman's Annual Information Form.

The exemption granted to Talisman also permits it to disclose internally evaluated reserves data. Any reserves data in this Annual Report Summary reflects Talisman's estimates of its reserves. While Talisman annually obtains an independent audit of a portion of its reserves, no independent qualified reserves evaluator or auditor was involved in the preparation of the reserves data disclosed in this Annual Report Summary.

Throughout this Annual Report Summary, the calculation of barrels of oil equivalent (boe) is at a conversion rate of six thousand cubic feet (mcf) of natural gas for one barrel of oil and is based on an energy equivalence conversion method. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalence conversion method primarily applicable at the burner tip and does not represent a value equivalence at the wellhead.

Talisman makes reference to production volumes throughout this Annual Report Summary. Where not otherwise indicated, such production volumes are stated on a gross basis, which means they are stated prior to the deduction of royalties and similar payments. In the US, net production volumes are reported after the deduction of these amounts.

The reserves replacement ratio of 116% (before acquisitions and dispositions) was calculated by dividing the sum of changes (revisions of estimates and discoveries) to estimated proved oil and gas reserves during 2006 by the Company's 2006 conventional production. The reserves replacement ratio of 116% was calculated by dividing the sum of changes (revisions of estimates, discoveries, acquisitions and dispositions) to estimated proved oil and gas reserves during 2006 by the Company's 2006 conventional production.

The Company's management uses reserve replacement ratios, as described above, as an indicator of the Company's ability to replenish annual production volumes and grow its reserves. It should be noted that a reserve replacement ratio is a statistical indicator that has limitations. As an annual measure, the ratio is limited because it typically varies widely based on the extent and timing of new discoveries, project sanctioning and property acquisitions. Its predictive and comparative value is also limited for the same reasons. In addition, since the ratio does not include the cost, value or timing of future production of new reserves, it cannot be used as a measure of value creation.

The reserves life index of 9.5 years for proved reserves was calculated by dividing the year-end proved reserves by the Company's 2006 conventional production. The reserves life index of 15.2 years for proved and probable reserves was calculated by dividing the year-end proved and probable reserves by the Company's 2006 conventional production.

The SEC normally permits oil and gas companies to disclose in their filings with the SEC only proved reserves that have been demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. Any probable reserves, contingent and prospective resources and the calculations with respect thereto included in this news release do not meet the SEC's standards for inclusion in documents filed with the SEC.

Notwithstanding that Talisman is not required to disclose contingent and prospective resources, it has done so using the definition for contingent and prospective resources set out by the SPE/WPC. There is essentially no material difference between the SPE/WPC definitions for contingent and prospective resources and the definitions set out in the Canadian Oil and Gas Handbook.

Contingent resources are those quantities of oil and/or gas which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable.

Prospective resources are those quantities of oil and/or gas which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations. There is no certainty that prospective resources will be discovered. Talisman's estimate for its international exploration portfolio, including Alaska and the Northwest Territories, of 5 billion boe of prospective resources, is calculated on the basis of the P50 estimate of such prospective resources without reduction for the probability of exploration success or failure.

non-gaap financial measures

Included in this Annual Report Summary are references to financial measures commonly used in the oil and gas industry, such as cash flow, cash flow per share and earnings from continuing operations. These terms are not defined by GAAP in either Canada or the US. Consequently, these are referred to as non-GAAP measures. Talisman's reported results of cash flow, cash flow per share and earnings from continuing operations may not be comparable to similarly titled measures by other companies. Cash flow, as commonly used in the oil and gas industry, represents net income before exploration costs, DD&A, future taxes and other non-cash expenses. Cash flow is used by the Company to assess operating results between years and between peer companies that use different accounting policies. Cash flow should not be considered an alternative to, or more meaningful than, cash provided by operating, investing and financing activities or net income as determined in accordance with Canadian GAAP as an indicator of the Company's performance or liquidity. A reconciliation of cash provided by operating activities to cash flow follows.

Years Ended December 31 ($ millions)	2006	2005	2004
Cash provided by operating activities	4,374	4,871	3,119
Changes in non-cash working capital	374	(199)	(203)
Cash flow	4,748	4,672	2,916

Net surplus cash flow is equal to revenue less royalties, operating costs and exploration and development spending. This term is not defined by GAAP in either Canada or the US. Consequently, it is referred to as a non-GAAP measure. The Company uses this information as an indicator of the amount of surplus funds in a particular operating segment which are available for other purposes.

Earnings from continuing operations is calculated by adjusting the Company's net income per the financial statements, for certain items of a non-operational nature, on an after-tax basis. This term is not defined by GAAP in either Canada or the US. Consequently, it is referred to as a non-GAAP measure. The Company uses this information to evaluate performance of core operational activities on a comparable basis between periods. Talisman's reported results of cash flow and earnings from continuing operations may not be comparable to similarly titled measures reported by other companies. A reconciliation of net income to earnings from operations follows.

Years Ended December 31 ($ millions, except per share amounts)	2006	2005	2004
Net income	2,005	1,561	654
Operating income from discontinued operations	197	207	135
Gain on disposition of discontinued operations	356	–	–
Net income from discontinued operations	553	207	135
Net income from continuing operations	1,452	1,354	519
Insurance expenses	10	2	–
Stock-based compensation (tax adjusted) [1,2]	32	447	119
Tax effects of unrealized foreign exchange gains on foreign denominated debt [2]	(27)	50	37
Tax rate reductions and other [2]	116	–	(46)
Earnings from continuing operations [3]	1,583	1,853	629
Per share [3]	1.45	1.68	0.55

1 Stock-based compensation expense relates to the closing value of the Company's share price and the relationship to its outstanding stock options and cash units as at December 31, 2006. The Company's stock-based compensation expense or recovery is based on the difference between the Company's share price and the exercise price of its stock options and cash units.

2 Tax adjustments include the impact of Canadian corporate tax rate reductions and a 10% supplemental tax increase in the UK in 2006, as well as future taxes relating in part to unrealized foreign exchange gains associated with the impact of a stronger Canadian dollar on foreign denominated debt and insurance expenses.

3 This is a non-GAAP measure.

abbreviations and definitions

bbl	barrel
bbls	barrels
bbls/d	barrels per day
bcf	billion cubic feet
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
C$	Canadian dollars
DBRS	Dominion Bond Rating Service
Gj	gigajoules
LNG	Liquified Natural Gas
mbbls/d	thousand barrels per day
mboe	thousand barrels of oil equivalent
mboe/d	thousand barrels oil equivalent per day
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmbbls	million barrels
mmbbls/d	million barrels per day
mmboe	million barrels of oil equivalent
mmbtu	million British thermal units
mmcf	million cubic feet
mmcf/d	million cubic feet per day
Moody's	Moody's Investors Service
NGL	Natural Gas Liquids
NGO	non government organization
NYMEX	New York Mercantile Exchange
NYSE	New York Stock Exchange
PSC	Production Sharing Contract
S&P	Standard & Poor's Corp.
SEC	Securities and Exchange Commission
tcf	trillion cubic feet
TSX	Toronto Stock Exchange
UK	United Kingdom
US	United States of America
US$	United States dollar
WTI	West Texas Intermediate
£	Pound sterling

Gross acres means the total number of acres in which Talisman has a working interest. Net acres means the sum of the fractional working interests owned in gross acres expressed as whole numbers and fractions thereof.

Gross production means Talisman's interest in production volumes (through working interests, royalty interests and net profit interests) before the deduction of royalties. Net production means Talisman's interest in production volumes after deduction of royalties payable by Talisman.

Gross wells means the total number of wells in which the Company has a working interest. Net wells means the sum of the fractional working interests owned in gross wells expressed as whole numbers and fractions thereof.

Conversion and equivalency factors

Imperial		Metric
1 ton	=	0.907 tonnes
1 acre	=	0.40 hectares
1 barrel	=	0.159 cubic metres
1 cubic foot	=	0.0282 cubic metres

annual meeting

The annual meeting of shareholders of Talisman Energy Inc. will be held at 10:30 am on Wednesday, May 9, 2007 in the Exhibition Hall, North Building of the Telus Convention Centre, 136 - 8th Avenue SE, Calgary, Alberta. Shareholders are encouraged to attend the meeting, but those who are unable to do so are requested to participate by voting, using one of the three available methods: (i) by telephone, (ii) by the Internet, or (iii) by signing and returning the Form of Proxy or Voting Instruction form mailed with the Management Proxy Circular.

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Talisman has produced a separate Annual Financial Report, Corporate Responsibility Report and Corporate Responsibility Summary. These reports are available by contacting the Company and can also be viewed on its website.

TALISMAN
ENERGY

3400, 888 - 3rd Street SW
Calgary, Alberta, Canada T2P 5C5
Telephone: (403) 237-1234
Facsimile: (403) 237-1902
E-mail: tlm@talisman-energy.com
Website: **www.talisman-energy.com**